

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Lake City	County Missaukee
Fiscal Year End March 31, 2007	Opinion Date June 15, 2007	Date Audit Report Submitted to State July 15, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.


We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.		Telephone Number 231-775-9789	
Street Address 134 W. Harris Street		City Cadillac	State MI
Zip 49601			
Authorizing CPA Signature 	Printed Name Scott A. Hunter, C.P.A.	License Number 1101009890	

CITY OF LAKE CITY, MICHIGAN

MARCH 31, 2007

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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REPORT OF EXAMINATION
CITY OF LAKE CITY, MICHIGAN
MARCH 31, 2007

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June 15, 2007

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Lake City, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lake City, Michigan, as of and for the year ended March 31, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lake City, Michigan, management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position, the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lake City, Michigan, as of March 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages iii through x and 39, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lake City, Michigan, basic financial statements. The combining and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

CITY OF LAKE CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2007

Management's Discussion and Analysis

The management of the City of Lake City, Michigan ("the City") offers this narrative overview and analysis of the financial activities of the City for the fiscal year ended March 31, 2007. This management's discussion and analysis is intended to assist the reader in focusing on significant financial issues and to provide an overview of the City's financial activity.

Financial Highlights

Government-Wide

- ❖ The assets of the City exceeded its liabilities at the close of this fiscal year by \$3,762,768 (shown as *Net Assets*), representing a decrease of \$17,789 over the previous fiscal year. Governmental Funds represented an increase of \$7,280, while Business-Type activities accounted for a decrease of \$25,069.

Fund Level Financial Highlights

- ❖ As of March 31, 2007, the governmental funds of the City of Lake City reported combined ending fund balances of \$582,005, of which \$574,938 is unreserved and \$7,067 is reserved.

Long-Term Debt

- ❖ The City of Lake City is not obligated under any long-term debt as of March 31, 2007, other than the debt owed by the Component Unit.

Overview of the Financial Statements

The City of Lake City's financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements This report includes government-wide financial statements, required by GASB 34. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire City's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

The *Statement of Net Assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net

CITY OF LAKE CITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2007

assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of these statements distinguish functions of the City that are principally supported by property taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or most of their costs through user fees and charges (business-type activities). Governmental activities of the City include general government, public safety, major and local streets, public works, culture and recreation. Business-type activities of the City include water and sewer utility services.

Fund Financial Statements

The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources. There are three (3) basic types of funds: governmental funds, proprietary funds and fiduciary funds.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Each fund is operated similar to a completely separate entity, with its own set of balancing accounts. The City of Lake City uses fund accounting to ensure compliance with finance-related legal requirements. There are three basic types of funds: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provides a reconciliation to facilitate this comparison between governmental funds and governmental activities.

CITY OF LAKE CITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2007

Proprietary Funds Proprietary funds account for services for which the City charges its customers for the services they are provided. These charges can be to external customers or other agencies within the City. There are two types of proprietary funds:

- Enterprise funds are used to report business-like activities of the City. These activities intend to recover the full cost of the services through the fee charged to the customers. The City has two enterprise funds, which are the Water Fund and the Sewer Fund.
- Internal Service funds are the second type of proprietary funds. These funds provide services to other departments within the City. These funds allow the City to allocate costs of centralized services such as the City's vehicle and equipment fleet. The City has one internal service fund, which is the Equipment Fund.

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the government. These funds are not reflected in the government-wide financial statements because the resources of the funds are not available for supporting the City's programs.

Component Units The City's Financial Report includes reporting on separate legal entities for which the City has some level of financial responsibility. These funds are shown in a separate column. The City's component units include the Downtown Development Authority and the Downtown Development Authority 2000 Debt Retirement Fund.

Notes to the Financial Statements

The Notes to the Basic Financial Statements provide additional information that is essential to a complete understanding of the information provided in both the government-wide and the fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

Government-Wide Financial Analysis

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the City's financial position over time. The Net Assets of the City are \$3,762,768 at March 31, 2007, meaning that the City's assets were greater than its liabilities by this amount. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. A

CITY OF LAKE CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2007

comparison with the previous fiscal year is presented in order to show the change in Net Assets over the previous fiscal year.

<i>City of Lake City</i>						
<i>Net Assets</i>						
	Governmental		Business-Type		Total Primary	
	Activities		Activities		Government	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Assets						
Current Assets	\$ 799,365	\$ 821,196	\$ 321,368	\$ 260,363	\$ 1,120,733	\$ 1,081,559
Restricted Assets	0	0	226,587	280,256	226,581	280,256
Non Current Assets						
Capital Assets	1,629,013	1,516,248	3,113,752	3,113,752	4,742,765	4,630,000
Less:						
Accumulated Depreciation	(892,544)	(812,649)	(1,393,381)	(1,321,319)	(2,285,925)	(2,133,968)
Total Non Current Assets	736,469	703,599	1,720,371	1,792,433	2,456,840	2,496,032
Total Assets	<u><u>\$ 1,535,834</u></u>	<u><u>\$ 1,524,795</u></u>	<u><u>\$ 2,268,326</u></u>	<u><u>\$ 2,333,052</u></u>	<u><u>\$ 3,804,154</u></u>	<u><u>\$ 3,857,847</u></u>
Liabilities						
Current liabilities	\$ 34,811	\$ 31,052	\$ 6,581	\$ 46,238	\$ 41,392	\$ 77,290
Net Assets						
Invested in capital assets	736,469	703,599	1,720,371	1,792,433	2,456,840	2,496,032
Restricted for Specific Purposes	0	0	226,587	280,256	226,581	280,256
Unrestricted	764,554	790,144	314,787	214,125	1,079,341	1,004,269
Total Net Assets	<u><u>1,501,023</u></u>	<u><u>1,493,743</u></u>	<u><u>2,261,745</u></u>	<u><u>2,286,814</u></u>	<u><u>3,762,762</u></u>	<u><u>3,780,557</u></u>
Total Liabilities and Net Assets	<u><u>\$ 1,535,834</u></u>	<u><u>\$ 1,524,795</u></u>	<u><u>\$ 2,268,326</u></u>	<u><u>\$ 2,333,052</u></u>	<u><u>\$ 3,804,154</u></u>	<u><u>\$ 3,857,847</u></u>

The most significant portion of the City's Net Assets are cash and the investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related debt that is outstanding that the City used to acquire or construct the asset. The City has \$1,079,341 in unrestricted Net Assets. These assets represent resources that are available for appropriation, but are limited by City policies regarding their use.

CITY OF LAKE CITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2007

The total net assets of the City decreased \$17,789 in this fiscal year. Governmental type activities increased by \$7,280, while Business-type activities decreased by \$25,069.

The following table illustrates and summarizes the results of the changes in the Net Assets for the City. The condensed information was derived from the Government-wide Statement of Activities.

City of Lake City
Change in Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<u>Revenues</u>						
Program Revenues						
Charges for Services	\$ 81,384	\$ 105,312	\$ 334,535	\$ 310,711	\$ 415,919	\$ 416,023
Operating Grants and Contributions	84,559	88,230	18,250	0	102,809	88,230
Capital Grants and Contributions	0	0	0	13,315	0	13,315
General Revenues						
Property Taxes	279,702	259,012	0	0	279,702	259,012
State Shared Revenue	84,012	85,725	0	0	84,012	85,725
Unrestricted Investment Earnings	4,973	3,728	10,104	13,472	15,077	17,200
Gain on Sales of Capital Assets	0	5,200	0	0	0	5,200
Other	12,501	11,240	431	224	12,932	11,464
Total Revenues	547,131	558,447	363,320	337,722	910,451	896,169
<u>Expenses</u>						
Legislative	15,940	16,809	0	0	15,940	16,809
General Government, Administrative	174,956	176,175	0	0	174,956	176,175
Public Safety	40,705	37,185	0	0	40,705	37,185
Public Works	215,728	216,967	0	0	215,728	216,967
Culture and Recreation	83,928	94,059	0	0	83,928	94,059
Debt Service	0	1	0	0	0	1
Water	0	0	178,298	149,015	178,298	149,015
Sewer	0	0	210,091	178,778	210,091	178,778
Intergovernmental Expenditures	0	13,315	0	0	0	13,315
Community and Economic Development	8,594	3,983	0	0	8,594	3,983
Total Expenses	539,851	558,494	388,389	327,793	928,240	886,287
Changes in Net Assets	7,280	(47)	(25,069)	9,929	(17,789)	9,882
NET ASSETS - Beginning of Year	1,493,743	1,493,790	2,286,814	2,276,885	3,780,557	3,770,675
NET ASSETS - End of Year	\$ 1,501,023	\$ 1,493,743	\$ 2,261,745	\$ 2,286,814	\$ 3,762,768	\$ 3,780,557

CITY OF LAKE CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2007

Governmental Activities

During the fiscal year ended March 31, 2007, the City's net assets increased by \$7,280. GASB 34 requires the City to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

The most significant part of the revenue for all governmental activities of the City of Lake City comes from property taxes. The City levied 12.50 mills for operating purposes. The City has designated the following: 8.57 mills for general operating; 1.48 mills for local street maintenance; 1.20 mills for fire protection; .50 mills for law enforcement; and .75 mills for cemetery maintenance.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax and motor fuel and weight taxes. In 2007, the amount of state shared revenue received by the City trended downward as a whole, representing declining sales tax collections and discretionary reductions by the State in revenue sharing payments.

The City's governmental activities expenses are dominated by public works expenses that total 39.96% of total expenses. The City spent \$215,728 in fiscal year 2007 on public works expenses. General governmental represented the next largest expense at \$174,956 followed by culture and recreation at \$83,928.

Business-Type Activities

The City utilizes a Water Fund to account for its water operations. Revenue is collected from customers within the City. These charges for services totaled \$138,215 for 2007. Water operations experienced a \$20,209 decrease in net assets.

The City utilizes a Sewer Fund to account for its sewer operations. Revenue is collected from customers within the City. These charges for services totaled \$196,320 for 2007. Sewer operations experienced a \$5,956 decrease in net assets

Financial Analysis of the Government's Funds

Governmental Activities The focus of the City of Lake City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirement. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

CITY OF LAKE CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2007

At the end of the current fiscal year, the City of Lake City's governmental funds reported combined ending fund balances of \$582,005. Essentially, this entire amount constitutes unreserved fund balance. Approximately \$248,888 of the unreserved balance is designated for specific purposes by the City.

General Fund – The General Fund fund balance decreased by \$47,785 which brings the fund balance to \$298,776. Of the fund balance, \$297,631 is unreserved while \$1,145 is reserved for prepaid expenditures.

Major Street Fund – The Major Street Fund increased its fund balance by \$18,254 which brings the fund balance to \$89,865. A large portion of this balance is designated for street improvements.

Local Street Fund – The Local Street Fund increased its fund balance by \$18,461 which brings the balance to \$70,503. A large portion of this balance is designated for street improvements.

The City designated 1.48 mills of its operating levy for local street improvements. This generated \$31,646 in tax related revenues during the current fiscal year.

Proprietary Fund The City's proprietary funds provide the same information as the government-wide statements.

Water Fund – The Water Fund ended the fiscal year with a decrease in net assets of \$20,209. This is due largely to the deduction of depreciation expense on the Fund's capital assets. Net assets invested in capital assets decreased by \$24,877.

Sewer Fund – The Sewer Fund ended the fiscal year with a decrease in net assets of 5,956. The unrestricted net assets increased \$36,376 and net assets invested in capital assets decreased by \$47,185.

Capital Assets and Debt Administration

Capital Assets. The City's investment in capital assets for governmental and business-type activities as of March 31, 2007 amounted to \$2,456,840 net of accumulated depreciation.

CITY OF LAKE CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2007

Capital assets summarized below include any items purchased with a cost greater than \$5,000 individually and that have a useful life greater than one year.

City of Lake City
Capital Assets as of March 31, 2007

	Governmental Activities	Business-Type Activities	Total Primary Government
Land and Land Improvements	\$ 368,073	\$ 0	\$ 368,073
Buildings	279,928	0	279,928
Improvements Other than Buildings	13,500	2,890,915	2,904,415
Equipment, Furniture and Fixtures	438,965	222,837	661,802
Infrastructure	528,547	0	528,547
	<hr/> 1,629,013	<hr/> 3,113,752	<hr/> 4,742,765
Less Accumulated Depreciation	892,544	1,393,381	2,285,925
	<hr/>	<hr/>	<hr/>
Net Capital Assets	\$ 736,469	\$ 1,720,371	\$ 2,456,840
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The City put into service a performing arts stage during the 2006-2007 fiscal year.

Long-Term Debt. The City of Lake City currently has no long-term debt that the City is liable for.

Economic Condition and Outlook

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means further reductions in state-shared revenues.

Factors such as this were considered in preparing the City's budgets for the 2007-08 fiscal year.

Request for Information

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report or need any additional information, contact the City of Lake City at 115 W. John Street, Lake City, Michigan 49651.

CITY OF LAKE CITY, MICHIGAN

STATEMENT OF NET ASSETS

MARCH 31, 2007

	PRIMARY GOVERNMENT			COMPONENT UNIT
	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTALS	
<u>ASSETS</u>				
Cash	\$ 721,516	\$ 268,222	\$ 989,738	\$ 131,399
Receivables				
Taxes	37,349	0	37,349	16,277
Accounts	3,946	22,017	25,963	0
External Parties (Fiduciary Funds)	52	0	52	0
Due from Other Governments	28,182	0	28,182	14,223
Inventory	0	28,617	28,617	0
Prepaid Expenses	8,320	2,512	10,832	0
Total Current Assets	\$ 799,365	\$ 321,368	\$ 1,120,733	\$ 161,899
<u>RESTRICTED ASSETS</u>				
Cash	\$ 0	\$ 161,187	\$ 161,187	\$ 0
Special Assessment Receivable	0	65,400	65,400	0
Total Restricted Assets	\$ 0	\$ 226,587	\$ 226,587	\$ 0
<u>CAPITAL ASSETS</u>				
Land and Land Improvements	\$ 368,073	\$ 0	\$ 368,073	\$ 630,538
Buildings	279,928	0	279,928	0
Improvements Other Than Buildings	13,500	2,890,915	2,904,415	0
Machinery and Equipment	438,965	222,837	661,802	0
Infrastructure	528,547	0	528,547	0
	\$ 1,629,013	\$ 3,113,752	\$ 4,742,765	\$ 630,538
Less Accumulated Depreciation	892,544	1,393,381	2,285,925	185,750
Net Capital Assets	\$ 736,469	\$ 1,720,371	\$ 2,456,840	\$ 444,788
TOTAL ASSETS	\$ 1,535,834	\$ 2,268,326	\$ 3,804,160	\$ 606,687

The accompanying notes are an integral part of the financial statements.

CITY OF LAKE CITY, MICHIGAN

STATEMENT OF NET ASSETS

MARCH 31, 2007

	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTALS	COMPONENT UNIT
<u>LIABILITIES</u>				
<u>CURRENT LIABILITIES</u>				
Accounts Payable	\$ 10,666	\$ 8,293	\$ 18,959	\$ 0
Internal Balances	4,739	(4,739)	0	0
Accrued Expenditures	4,526	3,027	7,553	0
Accrued Interest	0	0	0	1,193
Due to Other Governments	14,880	0	14,880	327
Current Portion of Long-Term Debt	0	0	0	20,000
Total Current Liabilities	\$ 34,811	\$ 6,581	\$ 41,392	\$ 21,520
<u>LONG-TERM LIABILITIES</u>				
Bonds Payable	\$ 0	\$ 0	\$ 0	\$ 255,000
Less: Current Portion	0	0	0	(20,000)
Total Long-Term Liabilities	\$ 0	\$ 0	\$ 0	\$ 235,000
TOTAL LIABILITIES	\$ 34,811	\$ 6,581	\$ 41,392	\$ 256,520
<u>EQUITY</u>				
Net Assets:				
Invested in Capital Assets, Net of Related Debt	\$ 736,469	\$ 1,720,371	\$ 2,456,840	\$ 189,788
Restricted for Improvements	0	226,587	226,587	0
Unrestricted	764,554	314,787	1,079,341	160,379
TOTAL NET ASSETS	\$ 1,501,023	\$ 2,261,745	\$ 3,762,768	\$ 350,167
TOTAL LIABILITIES AND NET ASSETS	\$ 1,535,834	\$ 2,268,326	\$ 3,804,160	\$ 606,687

The accompanying notes are an integral part of the financial statements.

CITY OF LAKE CITY, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2007

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGE IN NET ASSETS				
	EXPENSES	CHARGES FOR SERVICES	OPERATING	CAPITAL	PRIMARY GOVERNMENT			COMPONENT UNIT	
			GRANTS AND CONTRIBUTIONS	GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS		
<u>PRIMARY GOVERNMENT</u>									
<u>GOVERNMENTAL ACTIVITIES</u>									
Legislative	\$ 15,940	\$ 0	\$ 0	\$ 0	\$ (15,940)	\$ 0	\$ (15,940)	\$ 0	
General Government	174,956	12,963	0	0	(161,993)	0	(161,993)	0	
Public Safety	40,705	0	2,310	0	(38,395)	0	(38,395)	0	
Public Works	215,728	49,048	82,249	0	(84,431)	0	(84,431)	0	
Community and Economic Development	8,594	1,970	0	0	(6,624)	0	(6,624)	0	
Culture and Recreation	83,928	17,403	0	0	(66,525)	0	(66,525)	0	
Total Governmental Activities	\$ 539,851	\$ 81,384	\$ 84,559	\$ 0	\$ (373,908)	\$ 0	\$ (373,908)	\$ 0	
<u>BUSINESS-TYPE ACTIVITIES</u>									
Water Fund	\$ 178,298	\$ 138,215	\$ 18,250	\$ 0	\$ 0	\$ (21,833)	\$ (21,833)	\$ 0	
Sewer Fund	210,091	196,320	0	0	0	(13,771)	(13,771)	0	
Total Business-Type Activities	\$ 388,389	\$ 334,535	\$ 18,250	\$ 0	\$ 0	\$ (35,604)	\$ (35,604)	\$ 0	
TOTAL PRIMARY GOVERNMENT	\$ 928,240	\$ 415,919	\$ 102,809	\$ 0	\$ (373,908)	\$ (35,604)	\$ (409,512)	0	
<u>COMPONENT UNIT</u>									
Downtown Development Authority	\$ 46,929	\$ 0	\$ 0		\$ 0	\$ 0	\$ 0	\$ (46,929)	
<u>GENERAL REVENUES</u>									
Property Taxes					\$ 279,702	\$ 0	\$ 279,702	\$ 59,603	
State Shared Revenue					84,012	0	84,012	0	
Unrestricted Investment Earnings					4,973	10,104	15,077	692	
Other					12,501	431	12,932	0	
Total General Revenues					\$ 381,188	\$ 10,535	\$ 391,723	\$ 60,295	
Change in Net Assets					\$ 7,280	\$ (25,069)	\$ (17,789)	\$ 13,366	
NET ASSETS - Beginning of Year					1,493,743	2,286,814	3,780,557	336,801	
NET ASSETS - End of Year					\$ 1,501,023	\$ 2,261,745	\$ 3,762,768	\$ 350,167	

The accompanying notes are an integral part of the financial statements.

CITY OF LAKE CITY, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET

MARCH 31, 2007

	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND	NON-MAJOR FUNDS	TOTALS
<u>ASSETS</u>					
Cash	\$ 294,982	\$ 80,654	\$ 57,110	\$ 102,652	\$ 535,398
Receivables					
Taxes	25,884	0	4,299	7,166	37,349
Accounts	3,946	0	0	0	3,946
Due from Other Funds	126	0	5,241	7,821	13,188
Due from Other Governments	12,115	11,333	4,734	0	28,182
Prepaid Expenditures	1,145	35	39	5,848	7,067
TOTAL ASSETS	\$ 338,198	\$ 92,022	\$ 71,423	\$ 123,487	\$ 625,130

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	\$ 5,483	\$ 74	\$ 636	\$ 141	\$ 6,334
Accrued Expenditures	3,244	342	127	246	3,959
Due to Other Funds	15,673	1,084	14	0	16,771
Due to Other Governments	14,223	657	0	0	14,880
Deferred Revenue	799	0	143	239	1,181
Total Liabilities	\$ 39,422	\$ 2,157	\$ 920	\$ 626	\$ 43,125

FUND BALANCE

Reserved for:					
Prepaid Expenditures	\$ 1,145	\$ 35	\$ 39	\$ 5,848	\$ 7,067
Unreserved:				0	
Designated for:					
Street Improvements	0	89,830	70,464	0	160,294
Fire Protection	0	0	0	48,868	48,868
Law Enforcement	0	0	0	39,726	39,726
Undesignated	297,631	0	0	28,419	326,050
Total Fund Balance	\$ 298,776	\$ 89,865	\$ 70,503	\$ 122,861	\$ 582,005

TOTAL LIABILITIES AND FUND BALANCE	\$ 338,198	\$ 92,022	\$ 71,423	\$ 123,487	\$ 625,130
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The accompanying notes are an integral part of the financial statements.

CITY OF LAKE CITY, MICHIGAN
GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
MARCH 31, 2007

Total Fund Balances for Governmental Funds	\$	582,005
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Amounts Reported for Governmental Activities in the
Statement of Net Assets are Different Because:

Capital assets used in governmental activities are not
financial resources and therefore are not reported in the funds.

Land	\$	19,500	
Land Improvements		348,573	
Buildings		279,928	
Improvements Other Than Buildings		13,500	
Machinery and Equipment		9,458	
Infrastructure		528,547	
Accumulated Depreciation		<u>(601,762)</u>	597,744

Some assets are not available to pay for current period expenditures and therefore are deferred in the fund statements.		1,181
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Internal service funds are used by management to charge costs of certain activities to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Assets.		<u>320,093</u>
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NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u><u>1,501,023</u></u>
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CITY OF LAKE CITY, MICHIGAN
GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

YEAR ENDED MARCH 31, 2007

	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND	NON- MAJOR FUNDS	TOTALS
<u>REVENUES</u>					
Taxes	\$ 195,269	\$ 0	\$ 31,646	\$ 52,436	\$ 279,351
Licenses and Permits	1,970	0	0	0	1,970
State Grants	84,012	55,786	26,463	2,310	168,571
Charges for Services	50,686	0	0	11,325	62,011
Interest and Rents	21,756	170	174	276	22,376
Other Revenue	10,632	0	1,869	0	12,501
Total Revenues	\$ 364,325	\$ 55,956	\$ 60,152	\$ 66,347	\$ 546,780
<u>EXPENDITURES</u>					
Legislative	\$ 15,940	\$ 0	\$ 0	\$ 0	\$ 15,940
General Government	144,152	0	0	31,050	175,202
Public Safety	0	0	0	40,271	40,271
Public Works	103,515	37,702	41,691	0	182,908
Community and Economic Development	8,594	0	0	0	8,594
Culture and Recreation	131,909	0	0	0	131,909
Total Expenditures	\$ 404,110	\$ 37,702	\$ 41,691	\$ 71,321	\$ 554,824
Excess (Deficiency) of Revenues Over Expenditures	\$ (39,785)	\$ 18,254	\$ 18,461	\$ (4,974)	\$ (8,044)
<u>OTHER FINANCING SOURCES (USES)</u>					
Transfers In (Out)	(8,000)	0	0	8,000	0
Net Change in Fund Balance	\$ (47,785)	\$ 18,254	\$ 18,461	\$ 3,026	\$ (8,044)
<u>FUND BALANCES</u> - Beginning of Year	346,561	71,611	52,042	119,835	590,049
<u>FUND BALANCES</u> - End of Year	\$ 298,776	\$ 89,865	\$ 70,503	\$ 122,861	\$ 582,005

The accompanying notes are an integral part of the financial statements.

CITY OF LAKE CITY, MICHIGAN
GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2007

Net change in Fund Balance - Total Governmental Funds	\$ (8,044)
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Amounts reported for governmental activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of these assets are allocated over their estimated useful lives and reported as depreciation in the statement of activities.

Depreciation Expense	(49,979)
Capital Outlay	56,492

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Change in personal property tax revenue deferred using the modified accrual method	351
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Internal service funds are used by management to charge costs of certain activities to individual funds. The net revenue (expense) of the internal service fund is reported within the governmental activities.

8,460

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 7,280</u>
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The accompanying notes are an integral part of the financial statements.

CITY OF LAKE CITY, MICHIGAN
PROPRIETARY FUNDS
BALANCE SHEET
MARCH 31, 2007

BUSINESS TYPE ACTIVITIES -
ENTERPRISE FUNDS
MAJOR FUNDS

	WATER	SEWER
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash	\$ 93,623	\$ 174,599
Accounts Receivable	9,271	12,746
Due from Other Funds	0	3,697
Inventory	28,617	0
Prepaid Expense	1,084	1,428
Total Current Assets	\$ 132,595	\$ 192,470
<u>NONCURRENT ASSETS</u>		
<u>RESTRICTED ASSETS</u>		
Cash	\$ 19,439	\$ 141,748
Special Assessments Receivable	9,890	55,510
Total Restricted Assets	\$ 29,329	\$ 197,258
<u>CAPITAL ASSETS</u>		
Improvements Other Than Buildings	\$ 1,129,802	\$ 1,761,113
Machinery and Equipment	0	222,837
	\$ 1,129,802	\$ 1,983,950
Less Accumulated Depreciation	540,345	853,036
Net Capital Assets	\$ 589,457	\$ 1,130,914
Total Noncurrent Assets	\$ 618,786	\$ 1,328,172
TOTAL ASSETS	\$ 751,381	\$ 1,520,642
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	\$ 4,425	\$ 3,868
Accrued Expenses	1,097	1,930
Due to Other Funds	54	0
Total Current Liabilities	\$ 5,576	\$ 5,798
<u>NET ASSETS</u>		
Invested in Capital Assets	\$ 589,457	\$ 1,130,914
Restricted for Improvements	29,329	197,258
Unrestricted	127,019	186,672
Total Net Assets	\$ 745,805	\$ 1,514,844
TOTAL LIABILITIES AND NET ASSETS	\$ 751,381	\$ 1,520,642

The accompanying notes are an integral part of the financial statements.

TOTALS	INTERNAL SERVICE FUND
\$ 268,222	\$ 186,118
22,017	0
3,697	0
28,617	0
2,512	1,253
<u>\$ 325,065</u>	<u>\$ 187,371</u>
\$ 161,187	\$ 0
65,400	0
<u>\$ 226,587</u>	<u>\$ 0</u>
\$ 2,890,915	\$ 0
222,837	429,507
<u>\$ 3,113,752</u>	<u>\$ 429,507</u>
1,393,381	290,782
<u>\$ 1,720,371</u>	<u>\$ 138,725</u>
\$ 1,946,958	\$ 138,725
<u>\$ 2,272,023</u>	<u>\$ 326,096</u>
\$ 8,293	\$ 4,332
3,027	567
54	8
<u>\$ 11,374</u>	<u>\$ 4,907</u>
\$ 1,720,371	\$ 138,725
226,587	0
313,691	182,464
<u>\$ 2,260,649</u>	<u>\$ 321,189</u>
<u>\$ 2,272,023</u>	<u>\$ 326,096</u>

The accompanying notes are an integral part of the financial statements.

CITY OF LAKE CITY, MICHIGAN
PROPRIETARY FUNDS

RECONCILIATION OF THE BALANCE SHEET OF PROPRIETARY FUNDS
TO THE STATEMENT OF NET ASSETS
MARCH 31, 2007

Total Net Assets - Total Proprietary Funds	\$ 2,260,649
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Amounts reported for proprietary activities in the statement of net assets are different because:

Internal service funds are used by management to charge costs of certain activities to individual funds. The assets and liabilities of the internal service fund are allocated to governmental activities. This creates an internal balance referred to as the crossover amount which needs to be adjusted for.

	<u>1,096</u>
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NET ASSETS OF PROPRIETARY FUNDS	<u><u>\$ 2,261,745</u></u>
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CITY OF LAKE CITY, MICHIGAN
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
YEAR ENDED MARCH 31, 2007

	<u>BUSINESS TYPE ACTIVITIES -</u>	
	<u>ENTERPRISE FUNDS</u>	
	<u>MAJOR FUNDS</u>	
	<u>WATER FUND</u>	<u>SEWER FUND</u>
<u>OPERATING REVENUES</u>	\$ 138,215	\$ 196,320
<u>OPERATING EXPENSES</u>		
Personal Services	\$ 33,060	\$ 51,185
Contracted Services	1,938	1,347
Retirement	2,000	3,000
Health and Life Insurance	14,324	19,643
Uniforms	116	282
Supplies	849	399
Gasoline and Oil	0	0
Legal Advertisements	382	0
Audit	1,000	1,000
Utilities	21,459	22,322
Repairs and Maintenance	53,510	40,335
Laboratory Analysis	8,419	5,812
Equipment Rental	8,035	530
Insurance	8,518	11,088
Continuing Education	60	0
Dues	255	3,905
Miscellaneous	0	2,649
Depreciation	24,877	47,186
Total Operating Expenses	\$ 178,802	\$ 210,683
Operating Income (Loss)	\$ (40,587)	\$ (14,363)

The accompanying notes are an integral part of the financial statements.

TOTALS		INTERNAL SERVICE FUND	
\$	334,535	\$	74,741
\$	84,245	\$	6,197
	3,285		0
	5,000		0
	33,967		1,798
	398		0
	1,248		474
	0		6,319
	382		0
	2,000		500
	43,781		0
	93,845		12,758
	14,231		0
	8,565		0
	19,606		9,509
	60		0
	4,160		0
	2,649		49
	72,063		29,916
\$	389,485	\$	67,520
\$	(54,950)	\$	7,221

The accompanying notes are an integral part of the financial statements.

CITY OF LAKE CITY, MICHIGAN
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
YEAR ENDED MARCH 31, 2007

	<u>BUSINESS TYPE ACTIVITIES -</u> <u>ENTERPRISE FUNDS</u> <u>MAJOR FUNDS</u>	
	<u>WATER FUND</u>	<u>SEWER FUND</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>		
Wellhead Protection Grant	\$ 18,250	\$ 0
Interest Revenue	1,996	2,050
Interest on Special Assessments	132	5,926
Other Revenue	0	431
Total Nonoperating Revenues (Expenses)	\$ 20,378	\$ 8,407
Change in Net Assets	\$ (20,209)	\$ (5,956)
<u>TOTAL NET ASSETS</u> - Beginning of Year	766,014	1,520,800
<u>TOTAL NET ASSETS</u> - End of Year	\$ 745,805	\$ 1,514,844

The accompanying notes are an integral part of the financial statements.

TOTALS		INTERNAL SERVICE FUND	
<hr/>		<hr/>	
\$	18,250	\$	0
	4,046		2,335
	6,058		0
	431		0
<hr/>		<hr/>	
\$	28,785	\$	2,335
<hr/>		<hr/>	
\$	(26,165)	\$	9,556
	2,286,814		311,633
<hr/>		<hr/>	
\$	2,260,649	\$	321,189
<hr/>		<hr/>	

The accompanying notes are an integral part of the financial statements.

CITY OF LAKE CITY, MICHIGAN
PROPRIETARY FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2007

Net Change in Fund Net Assets - Total Proprietary Funds	\$ (26,165)
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Amounts reported for proprietary activities in the statement of activities are different because:

Internal service funds are used by management to charge costs of certain activities to individual funds. The net revenue (expense) of internal service fund is reported with governmental type activities. This creates an internal balance referred to as the crossover amount that needs to be adjusted for.

1,096

CHANGE IN NET ASSETS OF PROPRIETARY FUNDS	<u><u>\$ (25,069)</u></u>
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CITY OF LAKE CITY, MICHIGAN
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2007

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS MAJOR FUNDS	
	WATER FUND	SEWER FUND
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>		
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 135,305	\$ 194,568
Cash Received from Interfund Services Provided and Used	0	0
Cash Payments to Suppliers for Goods and Services	(157,325)	(112,714)
Cash Payments to Employees for Services	(33,744)	(51,578)
	<hr/>	<hr/>
Net Cash Provided (Used) by Operating Activities	\$ (55,764)	\$ 30,276
	<hr/>	<hr/>
Cash Flows from Capital and Related Financing Activities:		
Acquisition and Construction of Capital Assets	\$ 0	\$ 0
Wellhead Protection Grant	18,250	0
Other Revenue Received	0	10,456
Collections of Special Assessments	51	431
	<hr/>	<hr/>
Net Cash Provided (Used) for Capital and Related Financing Activities	\$ 18,301	\$ 10,887
	<hr/>	<hr/>
Cash Flows from Investing Activities:		
Interest Received	\$ 1,996	\$ 2,050
Interest on Special Assessments	132	5,926
	<hr/>	<hr/>
Net Cash Provided (Used) by Investing Activities	\$ 2,128	\$ 7,976
	<hr/>	<hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (35,335)	\$ 49,139
	<hr/>	<hr/>
<u>CASH AND CASH EQUIVALENTS</u> - Beginning of Year	148,397	267,208
	<hr/>	<hr/>
<u>CASH AND CASH EQUIVALENTS</u> - End of Year	\$ 113,062	\$ 316,347
	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of the financial statements.

<u>TOTALS</u>	<u>INTERNAL SERVICE FUND</u>
\$ 329,873	\$ 0
0	74,747
(270,039)	(28,478)
(85,322)	(5,946)
<u>\$ (25,488)</u>	<u>\$ 40,323</u>
\$ 0	\$ (56,273)
18,250	0
10,456	0
482	0
<u>\$ 29,188</u>	<u>\$ (56,273)</u>
\$ 4,046	\$ 2,335
6,058	0
<u>\$ 10,104</u>	<u>\$ 2,335</u>
\$ 13,804	\$ (13,615)
<u>415,605</u>	<u>199,733</u>
<u><u>\$ 429,409</u></u>	<u><u>\$ 186,118</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF LAKE CITY, MICHIGAN
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2007

BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS MAJOR FUNDS	
WATER FUND	SEWER FUND
<hr/>	
Operating Income (Loss)	\$ (40,587) \$ (14,363)
<hr/>	
Adjustments to Reconcile Operating Income	
To Net Cash Provided by Operating Activities	
Depreciation	\$ 24,877 \$ 47,186
(Increase) Decrease in Current Assets	
Accounts Receivable	(2,946) (450)
Due from Other Funds	36 (1,242)
Inventory	(538) 0
Prepaid Expense	(46) (60)
Increase (Decrease) in Current Liabilities	
Accounts Payable	(35,930) (402)
Other Accrued Expenses	(684) (393)
Due to Other Funds	54 0
	<hr/>
Total Adjustments	\$ (15,177) \$ 44,639
	<hr/>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (55,764) \$ 30,276
	<hr/>

The accompanying notes are an integral part of the financial statements.

<u>TOTALS</u>	<u>INTERNAL SERVICE FUND</u>
<u>\$ (54,950)</u>	<u>\$ 7,221</u>
\$ 72,063	\$ 29,916
(3,396)	0
(1,206)	6
(538)	0
(106)	(58)
(36,332)	2,979
(1,077)	251
54	8
<u>\$ 29,462</u>	<u>\$ 33,102</u>
<u><u>\$ (25,488)</u></u>	<u><u>\$ 40,323</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF LAKE CITY, MICHIGAN
FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS
MARCH 31, 2007

	<u>AGENCY</u>
<u>ASSETS</u>	
Cash	\$ 991
Due from Other Governments	<u>327</u>
 TOTAL ASSETS	 <u><u>\$ 1,318</u></u>
 <u>LIABILITIES</u>	
Due to Other Governments	\$ 1,266
Due to Other Funds	<u>52</u>
 TOTAL LIABILITIES	 \$ 1,318
 <u>NET ASSETS</u>	 <u>0</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 1,318</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF LAKE CITY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Lake City, Michigan, was incorporated under the laws of the State of Michigan and operates under an elected Mayor-Council form of government. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Discretely presented component units on the other hand, are reported in a separate column in the combined financial statements to emphasize they are legally separate from the primary government. Each blended and discretely presented component unit has a March 31 year end.

BLENDED COMPONENT UNITS

The City has no blended component units.

DISCRETELY PRESENTED COMPONENT UNITS

Downtown Development Authority (DDA) – The DDA was established pursuant to the provisions of Act No. 197 of the Public Acts of Michigan 1975. The members of the governing board of the Downtown Development Authority are appointed by the City Council. The Authority's operational and capital budgets must be approved by the City Council.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially responsible.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

CITY OF LAKE CITY, MICHIGAN
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The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, interest and special assessments associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivables due within the current period is considered to be susceptible to accrual as revenue of the current period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

The accounts of the City are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

The City of Lake City reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

CITY OF LAKE CITY, MICHIGAN

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The *Major Street Fund* is used to account for the financial activity of the streets designated by the State of Michigan as major thoroughfares and for the maintenance contract of the state trunklines.

The *Local Street Fund* receives all local street money paid to the city by the State, accounts for all construction, maintenance, traffic services, and snow and ice control on all streets classified as local.

The City of Lake City reports the following major proprietary funds:

The *Water and Sewer Funds* account for the provision of water and sewer services to the residents of the City and certain adjacent areas. All activities related to such services are accounted for in the water and sewer system funds which are generally self-supporting. Primary financing is provided through user-charges.

Additionally the City of Lake City reports the following fund types:

The *special revenue funds* account for revenue sources that are legally restricted to expenditure for specific purposes (not including expendable trusts or major capital projects).

The *proprietary funds* are used to account for those operations that are financed and operated in a manner similar to private business or where the Council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

The *internal service funds* account for operations that provide services to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis.

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the City holds for others in an agency capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions involved. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

CITY OF LAKE CITY, MICHIGAN

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Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer Fund, and of the City's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and for internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use the restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

The City's investment policy conforms to state statutes.

The Investment policy of the City authorizes the following investments:

- a) Passbook Savings
- b) Negotiable Certificates of Deposit
- c) Nonnegotiable Certificates of Deposit
- d) Repurchase agreements backed by U.S. government or federal agency obligations.
- e) All bonds, securities and obligations of the United States or any of its agencies or instrumentality's
- f) Bankers acceptance of United States banks

2. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

CITY OF LAKE CITY, MICHIGAN
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Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on the property as of the date they are levied. State education taxes are levied and due July 1, and become delinquent after September 14. County, Township and the balance of school taxes are levied and due December 1, and become delinquent after February 14. Collections of school and county taxes and remittances of them are accounted for in the Current Tax Collection Fund. City property tax revenues are recognized when they become both measurable and available for use to finance City operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

The 2006 taxable valuation of the City of Lake City totaled \$24,451,076, on which ad valorem taxes levied consisted of 12.50 mills for the City of Lake City operating purposes. These levies raised approximately \$305,638 for operating purposes and a portion of these taxes levied were captured by the Downtown Development Authority

3. *Inventories and Prepaid Items*

Inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of proprietary funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. *Restricted Assets*

Certain proceeds of enterprise fund special assessment bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

5. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

CITY OF LAKE CITY, MICHIGAN

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Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant and equipment of the primary government, as well as the component units are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Building improvements	20
Public domain infrastructure	50
Vehicles	10
Equipment	5-10

6. *Long-term Obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. *Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

8. *Use of Estimates*

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CITY OF LAKE CITY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
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9. Comparative Data/Reclassifications

Comparative total data for the prior year have been presented in selected sections of the accompanying financial statements in order to provide an understanding of the changes in the government's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

1. Prior to March 31, the City Superintendent submits to the City Council a proposed operating budget for all governmental funds for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to March 31, the budget is legally enacted through passage of a budget ordinance. Budgets are submitted on a line-item basis but adopted by the Council on a major function basis.
4. All transfers of budget amounts between functions within the General Fund and any revisions that alter the total expenditures of any fund must be approved by the City Council. General Fund expenditures may not legally exceed budgeted appropriations at the major function level. Expenditures in all other governmental funds may not exceed appropriations at the total fund level.
5. Formal budgetary integration is employed as a management control device during the year for all governmental fund types.
6. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). All appropriations lapse at year end. Budgeted amounts are as originally adopted, or as amended by the City Council from time to time throughout the year.
7. Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City because, at present, it is not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

B. The City had no funds with expenditures in excess of appropriations for the year ended March 31, 2007.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The City's deposits and investments are on deposit with Chemical Bank in Lake City, Michigan and Fifth Third Bank in Traverse City, Michigan.

CITY OF LAKE CITY, MICHIGAN

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Investment rate risk. The City will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the City's cash requirements.

Foreign currency risk. The City does not have a policy on this type of risk.

Credit risk. The City will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the City's investment policy; and pre-qualifying the financial institutions, brokers/dealers, intermediaries and advisors with which the City will do business in accordance with the City's investment policy.

Concentration of credit risk. The City will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the City's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of March 31, 2007, \$380,730 of the City's bank balance of \$1,162,041 was exposed to custodial credit risk because it was uninsured and uncollateralized. As of the same date the discretely presented component unit's had exposure to custodial credit risk because \$31,199 of the bank balance of \$131,199 was uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City currently has no investments.

A reconciliation of cash and investments follows:

	PRIMARY GOVERNMENT	COMPONENT UNITS
Cash on Hand	\$ 225	\$ 0
Carrying amount of Deposits	1,151,691	131,199
Total	<u>\$ 1,151,916</u>	<u>\$ 131,199</u>

CITY OF LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2007

Government-wide Statement of Net Assets

Cash	\$ 989,738	\$ 131,199
Restricted Assets - Cash	161,187	0
Statement of Fiduciary Net Assets		
Cash	991	0
Total	<u>\$ 1,151,916</u>	<u>\$ 131,199</u>

B. Receivables

Receivables as of year end for the government's individual major funds and nonmajor, internal service, and fiduciary funds in aggregate, including the applicable allowances for uncollectible accounts are as follows:

	General	Major Street	Local Street	Water Fund	Sewer Fund	Nonmajor and Other Funds	Total
Receivables							
Taxes	\$ 25,884	\$ 0	\$ 4,299	\$ 0	\$ 0	\$ 7,166	\$ 37,349
Accounts	3,946	0	0	9,271	12,746	0	25,963
Special Assessments	0	0	0	9,890	55,510	0	65,400
Intergovernmental	12,115	11,333	4,734	0	0	0	28,182
Receivables	<u>\$ 41,945</u>	<u>\$ 11,333</u>	<u>\$ 9,033</u>	<u>\$ 19,161</u>	<u>\$ 68,256</u>	<u>\$ 7,166</u>	<u>\$ 156,894</u>

By ordinance, the City can place substantially all of its delinquent receivables on the tax rolls as a lien against real property. As a result, its uncollectible accounts are virtually nil.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Deferred Revenue		
	Unavailable	Unearned	Total
Delinquent property taxes receivable			
General Fund	\$ 799	\$ 0	\$ 799
Local Street Fund	143	0	143
Fire Fund	119	0	119
Law Fund	48	0	48
Cemetery Fund	72	0	72
	<u>\$ 1,181</u>	<u>\$ 0</u>	<u>\$ 1,181</u>

CITY OF LAKE CITY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

C. Capital Assets

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets, Not Being Depreciated				
Land	\$ 19,500	\$ 0	\$ 0	\$ 19,500
Construction in Progress	73,850	0	73,850	0
Total Capital Assets, Not Being Depreciated	\$ 93,350	\$ 0	\$ 73,850	\$ 19,500
Capital Assets, Being Depreciated				
Buildings	\$ 206,078	\$ 73,850	\$ 0	\$ 279,928
Improvements other than Buildings	13,500	0	0	13,500
Land Improvements	299,539	49,034	0	348,573
Machinery and Equipment	2,000	7,458	0	9,458
Infrastructure	528,547	0	0	528,547
Total capital assets, being depreciated	\$ 1,049,664	\$ 130,342	\$ 0	\$ 1,180,006
Less Accumulated Depreciation For:				
Buildings	\$ 122,035	\$ 5,248	\$ 0	\$ 127,283
Improvements other than buildings	2,217	900	0	3,117
Land Improvements	159,771	16,782	0	176,553
Machinery and Equipment	2,000	621	0	2,621
Infrastructure	265,760	26,428	0	292,188
Total Accumulated Depreciation	\$ 551,783	\$ 49,979	\$ 0	\$ 601,762
Total Capital Assets, Being Depreciated, Net	\$ 497,881	\$ 80,363	\$ 0	\$ 578,244
Governmental Activities Capital Assets, Net	\$ 591,231	\$ 80,363	\$ 73,850	\$ 597,744
Internal Service Fund Net Capital Assets				138,725
Net Capital Assets per Statement of Net Assets				<u>\$ 736,469</u>

CITY OF LAKE CITY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
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Business-Type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, being depreciated				
Improvements other than buildings	\$ 2,854,183	\$ 0	\$ 0	\$ 2,854,183
Machinery and Equipment	259,569	0	0	259,569
Total capital assets, being depreciated	\$ 3,113,752	\$ 0	\$ 0	\$ 3,113,752
Less accumulated depreciation for:				
Improvements other than buildings	\$ 1,182,626	\$ 60,099	\$ 0	\$ 1,242,725
Machinery and Equipment	138,693	11,963	0	150,656
Total accumulated depreciation	\$ 1,321,319	\$ 72,062	\$ 0	\$ 1,393,381
Total capital assets, being depreciated, net	\$ 1,792,433	\$ (72,062)	\$ 0	\$ 1,720,371
Business-type activities capital assets, net	\$ 1,792,433	\$ (72,062)	\$ 0	\$ 1,720,371

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General Government	\$ 5,413
Public Safety	460
Public Works, including depreciation of general infrastructure assets	37,705
Culture and Recreation	6,401
Total depreciation expense - governmental activities	\$ 49,979
Business-type activities:	
Water Fund	\$ 24,877
Sewer Fund	47,185
Total depreciation expense - business-type activities	\$ 72,062

CITY OF LAKE CITY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

Discretely Presented Component Units:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities				
Capital Assets, being depreciated				
Improvements other than buildings	\$ 630,538	\$ 0	\$ 0	\$ 630,538
Less accumulated depreciation for:				
Improvements other than buildings	154,223	31,527	0	185,750
Total capital assets, being depreciated, net	<u>\$ 476,315</u>	<u>\$ (31,527)</u>	<u>\$ 0</u>	<u>\$ 444,788</u>

D. Interfund Receivables, Payables and Transfers

Individual fund interfund receivable and payable balances at March 31, 2007, were:

<u>FUND</u>	INTERFUND	INTERFUND PAYABLES
General Fund	\$ 126	\$ 15,673
Major Street Fund	0	1,084
Local Street Fund	5,241	14
Fire Fund	4,374	0
Law Fund	1,389	0
Cemetery Fund	2,058	0
Equipment Fund	0	8
Water Fund	0	54
Sewer Fund	3,697	0
Payroll Fund	0	52
	<u>\$ 16,885</u>	<u>\$ 16,885</u>

All remaining balances generally resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All interfund balances outstanding at March 31, 2007, are expected to be repaid within one year.

The General Fund transferred \$8,000 into the Cemetery Fund during the fiscal year ended March 31, 2007.

CITY OF LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

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Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

F. Long-Term Debt

1. Primary Government

The City of Lake City does not have any debt outstanding at March 31, 2007.

2. Component Unit

The following is a summary of debt transactions of the City of Lake City's discretely presented component unit for the year ended March 31, 2007:

	REVENUE BONDS
Debt Payable at April 1, 2006	\$ 275,000
New Debt Incurred	0
Debt Retired	(20,000)
Debt Payable at March 31, 2007	<u>\$ 255,000</u>

Debt payable at March 31, 2007, is comprised of the following issues:

\$350,000 Lake City Downtown Development Authority Bonds, bonds due in annual installments of \$20,000 to \$35,000 through May 1, 2015; interest at 5.40% to 5.75% due May 1, and November 1, of each year; this debt is serviced from tax revenues of the Lake City Downtown Development Authority with secondary security of the full faith and credit of the City	<u>\$ 255,000</u>
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The annual requirements to amortize this debt as of March 31, 2007, are as follows:

YEAR ENDING MARCH 31,	COMPONENT UNIT
2008	
PRINCIPAL	\$ 20,000
INTEREST	13,776
TOTAL	<u>\$ 33,776</u>
2009	
PRINCIPAL	\$ 25,000
INTEREST	12,554
TOTAL	<u>\$ 37,554</u>

CITY OF LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2007

2010		
PRINCIPAL	\$	25,000
INTEREST		11,185
TOTAL	\$	36,185
2011		
PRINCIPAL	\$	25,000
INTEREST		9,804
TOTAL	\$	34,804
2012		
PRINCIPAL	\$	30,000
INTEREST		8,270
TOTAL	\$	38,270
2013-2016		
PRINCIPAL	\$	130,000
INTEREST		15,489
TOTAL	\$	145,489
GRAND TOTAL		
PRINCIPAL	\$	255,000
INTEREST		71,078
TOTAL	\$	326,078

G. Fund Balance Reserves and Designations

In order to comply with generally accepted accounting principles and meet certain legal requirements, the City has reserved fund balances/retained earnings in various funds. In addition, certain portions of unreserved fund balances/retained earnings have been designated for intended future uses. These reserves and designations are detailed in the following schedule:

NET ASSETS

Restricted

Water and Sewer Fund Improvements	\$	226,587
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FUND BALANCE

Reserved

General Fund

Prepaid Expenditures	\$	1,145
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Special Revenue Funds

Major Street Fund

Prepaid Expenditures	\$	35
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CITY OF LAKE CITY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

Local Street Fund		
Prepaid Expenditures	39	
Cemetery Fund		
Prepaid Expenditures	250	
Law Fund		
Prepaid Expenditures	17	
Fire Fund		
Prepaid Expenditures	5,581	5,922
Component Units		
Downtown Development Authority 2000 Debt		
Retirement Fund		
Debt Service		1,230
		<hr/>
TOTAL FUND BALANCE/NET RESERVES	\$	8,297
		<hr/>
Unreserved-Designated		
Special Revenue Funds		
Major Street Fund		
Street Expenditures	\$	89,830
Local Street Fund		
Street Expenditures		70,464
Fire Fund		
Fire Protection		48,868
Law Fund		
Law Enforcement		39,726
		<hr/>
TOTAL FUND BALANCE DESIGNATIONS	\$	248,888
		<hr/>

IV. OTHER INFORMATION

A. Statement of Cash Flows

For purposes of the statement of cash flows, the proprietary funds consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased, to be cash equivalents.

CITY OF LAKE CITY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

B. Due from Other Governments

Amounts due from other governments consists of \$28,182 in state-shared revenues and other miscellaneous items.

C. Retirement Benefits

The City funds retirement benefits by making direct contributions to a SEP plan (Simplified Employee Pension). These accounts are the property of the employees and, therefore, are not treated as part of the City's reporting entity.

D. Component Unit Disclosures

The following presents the condensed financial statements for the discretely presented component unit.

Condensed Financial Statements - Discretely Presented Component Unit
Balance Sheet

	<u>DOWNTOWN DEVELOPMENT AUTHORITY FUND</u>
Assets	
Current Assets	<u>\$ 163,129</u>
Liabilities	
Current Liabilities	\$ 1,557
Fund Balance	<u>161,572</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 163,129</u>

CITY OF LAKE CITY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

Statement of Revenues, Expenditures, and Changes in Fund Balance

	DOWNTOWN DEVELOPMENT AUTHORITY FUND
Revenues	\$ 60,295
Expenditures	
Economic Development	\$ 0
Debt Service	34,850
Total Expenditures	\$ 34,850
Excess of Revenues Over (Under) Expenditures	\$ 25,445
Other Financing Sources (Uses)	
Transfers In	\$ 34,850
Transfers Out	34,850
Total Other Financing Sources (Uses)	\$ 0
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Sources (Uses)	\$ 25,445
Fund Balance - Beginning of Year	136,127
Fund Balance - End of Year	\$ 161,572

E. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The City carries commercial insurance for casualty, workers' disability compensation, employee health and accident insurance.

F. Lake Missaukee Area Fire Authority

The Lake Missaukee Area Fire Authority is a joint venture by and between the City of Lake City and the townships of Caldwell, Forest, Lake, Pioneer, and Reeder. This joint venture was created to provide fire

CITY OF LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2007

protection for the listed governments. Each municipality pays as annual base amount equal to one-half of one mill of taxable value of the real property located in the areas of the municipality covered by this agreement. In addition, the City pays for each fire run within the City.

For the year ended March 31, 2007, the City contributed a total of \$11,164 to the Fire Authority.

The following financial information was taken from the Fire Authority's March 31, 2006 audited financial statements.

Total Assets	\$ 588,952
Total Liabilities	79,762
Investment in Capital Assets	550,378
Net Assets Invested in Capital Assets	
Net of Related Debt	470,616
Net Assets - Unrestricted	38,574
Total Revenues	205,958
Total Expenses	176,353
Change in Net Assets	29,605

The Lake Missaukee Area Fire Authority's total liabilities can be broken down as follows:

Loan Payable	\$ 79,762
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A copy of these audited financial statements may be obtained upon request from the Fire Authority Treasurer.

CITY OF LAKE CITY, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

YEAR ENDED MARCH 31, 2007

	GENERAL FUND			MAJOR STREET FUND			LOCAL STREET FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>									
Taxes	\$ 194,249	\$ 194,249	\$ 195,269	\$ 0	\$ 0	\$ 0	\$ 31,056	\$ 31,056	\$ 31,646
Licenses and Permits	1,000	1,000	1,970	0	0	0	0	0	0
State Grants	80,000	70,000	84,012	60,000	44,000	55,786	28,000	28,000	26,463
Charges for Services	44,368	44,000	50,686	5,000	1,700	0	5,000	0	0
Interest and Rents	15,600	15,525	21,756	100	100	170	100	100	174
Other Revenue	14,000	14,200	10,632	0	0	0	0	0	1,869
Total Revenues	\$ 349,217	\$ 338,974	\$ 364,325	\$ 65,100	\$ 45,800	\$ 55,956	\$ 64,156	\$ 59,156	\$ 60,152
<u>EXPENDITURES</u>									
Legislative	\$ 18,125	\$ 16,875	\$ 15,940	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
General Government	135,540	158,815	144,152	0	0	0	0	0	0
Public Works	97,445	107,700	103,515	45,875	41,715	37,702	47,005	47,825	41,691
Community and Economic Development	7,735	9,450	8,594	0	0	0	0	0	0
Culture and Recreation	140,460	137,110	131,909	0	0	0	0	0	0
Total Expenditures	\$ 399,305	\$ 429,950	\$ 404,110	\$ 45,875	\$ 41,715	\$ 37,702	\$ 47,005	\$ 47,825	\$ 41,691
Excess (Deficiency) of Revenues Over Expenditures	\$ (50,088)	\$ (90,976)	\$ (39,785)	\$ 19,225	\$ 4,085	\$ 18,254	\$ 17,151	\$ 11,331	\$ 18,461
<u>OTHER FINANCING SOURCES (USES)</u>									
Transfers In (Out)	0	(8,000)	(8,000)	0	0	0	0	0	0
Net Change in Fund Balance	\$ (50,088)	\$ (98,976)	\$ (47,785)	\$ 19,225	\$ 4,085	\$ 18,254	\$ 17,151	\$ 11,331	\$ 18,461
<u>FUND BALANCE</u> - Beginning of Year	346,561	346,561	346,561	71,611	71,611	71,611	52,042	52,042	52,042
<u>FUND BALANCE</u> - End of Year	\$ 296,473	\$ 247,585	\$ 298,776	\$ 90,836	\$ 75,696	\$ 89,865	\$ 69,193	\$ 63,373	\$ 70,503

MAJOR GOVERNMENTAL FUNDS

GENERAL FUND

The General Fund is the operating fund of the City. It is used to account for the resources devoted to finance the services traditionally associated with local government, except those activities that are required to be accounted for in another fund. Transactions are recorded on the modified accrual basis.

MAJOR STREET FUND

The Major Street Fund accounts for the financial activity of the streets designated by the State of Michigan as major thoroughfares and for the maintenance contract of the state trunklines.

LOCAL STREET FUND

The Local Street Fund receives all local street money paid to the City by the State, accounts for all construction, maintenance, traffic services, and snow and ice control on all streets classified as local.

CITY OF LAKE CITY, MICHIGAN

GENERAL FUND
COMPARATIVE BALANCE SHEET

MARCH 31,

<u>ASSETS</u>		2007	2006
Cash		\$ 294,982	\$ 343,023
Accounts Receivable		3,946	3,511
Taxes Receivable		25,884	25,082
Due from Other Funds		126	46
Due from Other Governments		12,115	11,931
Prepaid Expenditures		1,145	1,107
TOTAL ASSETS		<u>\$ 338,198</u>	<u>\$ 384,700</u>
<u>LIABILITIES AND FUND BALANCE</u>			
<u>LIABILITIES</u>			
Accounts Payable		\$ 5,483	\$ 12,618
Accrued Expenditures		3,244	2,897
Due to Other Funds		15,673	16,008
Due to Other Governments		14,223	6,064
Deferred Revenue		799	552
Total Liabilities		<u>\$ 39,422</u>	<u>\$ 38,139</u>
<u>FUND BALANCE</u>			
Reserved for Prepaid Expenditures		\$ 1,145	\$ 1,107
Unreserved		297,631	345,454
Total Fund Balance		<u>\$ 298,776</u>	<u>\$ 346,561</u>
TOTAL LIABILITIES AND FUND BALANCE		<u>\$ 338,198</u>	<u>\$ 384,700</u>

CITY OF LAKE CITY, MICHIGAN

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED MARCH 31, 2007

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED MARCH 31, 2006

	2007		2006
	BUDGET	ACTUAL	ACTUAL
<u>REVENUES</u>			
Taxes	\$ 194,249	\$ 195,269	\$ 182,663
Licenses and Permits	1,000	1,970	1,570
State Grants	70,000	84,012	85,725
Charges for Services	44,000	50,686	49,802
Interest and Rents	15,525	21,756	22,857
Other Revenue	14,200	10,632	11,240
Total Revenues	\$ 338,974	\$ 364,325	\$ 353,857
<u>EXPENDITURES</u>			
Legislative	\$ 16,875	\$ 15,940	\$ 16,809
General Government			
Elections	3,725	3,222	1,501
Independent Accounting and Audit	7,500	7,392	6,950
Assessor	18,040	14,217	14,939
Clerk	20,115	19,883	22,865
Treasurer	17,260	15,165	13,158
Buildings and Grounds	76,750	73,401	65,195
Other Functions	15,425	10,872	12,298
Public Works	107,700	103,515	97,361
Community and Economic Development	9,450	8,594	8,441
Culture and Recreation	137,110	131,909	165,234
Total Expenditures	\$ 429,950	\$ 404,110	\$ 424,751
Excess (Deficiency) of Revenues Over Expenditures	\$ (90,976)	\$ (39,785)	\$ (70,894)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers Out	\$ (8,000)	\$ (8,000)	\$ (7,000)
Net Change in Fund Balance	\$ (98,976)	\$ (47,785)	\$ (77,894)
<u>FUND BALANCE</u> - Beginning of Year	346,561	346,561	424,455
<u>FUND BALANCE</u> - End of Year	\$ 247,585	\$ 298,776	\$ 346,561

CITY OF LAKE CITY, MICHIGAN

GENERAL FUND

ANALYSIS OF REVENUES - BUDGET AND ACTUAL

YEAR ENDED MARCH 31, 2007

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED MARCH 31, 2006

	<u>2007</u>		<u>2006</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
<u>TAXES</u>			
Current and Delinquent Taxes	\$ 184,249	\$ 184,210	\$ 172,301
Property Tax Administration Fee	10,000	11,059	10,362
Total Taxes	\$ 194,249	\$ 195,269	\$ 182,663
<u>LICENSES AND PERMITS</u>			
Building and Zoning Permits	\$ 1,000	\$ 1,970	\$ 1,570
<u>STATE GRANTS</u>			
Sales and Use Tax	\$ 70,000	\$ 80,618	\$ 82,040
Telecommunications Right of Way Maintenance	0	3,394	3,685
Total State Grants	\$ 70,000	\$ 84,012	\$ 85,725
<u>CHARGES FOR SERVICES</u>			
Refuse Collection	\$ 44,000	\$ 49,048	\$ 47,829
Summer Tax Collection	0	1,638	1,973
Total Charges for Services	\$ 44,000	\$ 50,686	\$ 49,802
<u>INTEREST AND RENTS</u>			
Interest	\$ 525	\$ 4,353	\$ 3,185
Maple Grove Rent	15,000	17,403	19,672
Total Interest and Rents	\$ 15,525	\$ 21,756	\$ 22,857
<u>OTHER REVENUE</u>			
Franchise Fees	\$ 7,200	\$ 7,678	\$ 6,677
Other Revenue	7,000	2,954	4,563
Total Other Revenue	\$ 14,200	\$ 10,632	\$ 11,240
TOTAL REVENUES	\$ 338,974	\$ 364,325	\$ 353,857

CITY OF LAKE CITY, MICHIGAN

GENERAL FUND
ANALYSIS OF EXPENDITURES - BUDGET AND ACTUAL

YEAR ENDED MARCH 31, 2007
WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED MARCH 31, 2006

	<u>2007</u>		<u>2006</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
<u>LEGISLATIVE</u>			
Mayor and City Council			
Personal Services	\$ 15,725	\$ 15,391	\$ 15,851
Supplies	400	281	452
Miscellaneous	750	268	506
	<u>\$ 16,875</u>	<u>\$ 15,940</u>	<u>\$ 16,809</u>
<u>GENERAL GOVERNMENT</u>			
Elections			
Personal Services	\$ 2,500	\$ 2,277	\$ 184
Supplies	1,000	817	1,186
Miscellaneous	225	128	131
	<u>\$ 3,725</u>	<u>\$ 3,222</u>	<u>\$ 1,501</u>
Independent Audit			
Audit Fees	<u>\$ 7,500</u>	<u>\$ 7,392</u>	<u>\$ 6,950</u>
Assessor			
Supplies	\$ 3,040	\$ 3,190	\$ 0
Contracted Services	15,000	11,027	14,939
	<u>\$ 18,040</u>	<u>\$ 14,217</u>	<u>\$ 14,939</u>
Clerk			
Personal Services	\$ 13,000	\$ 11,903	\$ 13,508
Supplies	2,400	2,053	3,056
Contracted Services	2,500	2,793	3,621
Legal Advertisements	1,600	1,229	2,020
Utilities	0	1,455	301
Repairs and Maintenance	140	116	0
Miscellaneous	475	334	359
	<u>\$ 20,115</u>	<u>\$ 19,883</u>	<u>\$ 22,865</u>

CITY OF LAKE CITY, MICHIGAN

GENERAL FUND

ANALYSIS OF EXPENDITURES - BUDGET AND ACTUAL

YEAR ENDED MARCH 31, 2007

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED MARCH 31, 2006

	<u>2007</u>		<u>2006</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
Treasurer			
Personal Services	\$ 4,500	\$ 3,644	\$ 5,413
Supplies	8,250	7,983	2,878
Contracted Services	4,000	3,124	4,545
Miscellaneous	510	414	322
	<u>\$ 17,260</u>	<u>\$ 15,165</u>	<u>\$ 13,158</u>
Buildings and Grounds			
Personal Services	\$ 26,250	\$ 25,789	\$ 18,216
Health and Life Insurance	7,500	7,409	5,234
Insurance	4,300	4,052	3,677
Supplies	4,300	4,145	2,515
Utilities	6,000	5,055	5,633
Telephone	3,500	2,476	1,674
Contracted Services	7,700	7,615	9,742
Repairs and Maintenance	7,000	6,655	13,095
Equipment Rental	3,700	3,485	2,554
Retirement	2,500	2,500	2,500
Miscellaneous	0	406	355
Capital Outlay	4,000	3,814	0
	<u>\$ 76,750</u>	<u>\$ 73,401</u>	<u>\$ 65,195</u>
Other Functions			
Personal Services	\$ 6,500	\$ 6,271	\$ 5,864
Health and Life Insurance	1,300	1,252	1,220
Insurance	725	617	338
Supplies	500	349	26
Contracted Services	1,000	911	3,200
Dues	1,000	820	668
Miscellaneous	4,400	652	982
	<u>\$ 15,425</u>	<u>\$ 10,872</u>	<u>\$ 12,298</u>

CITY OF LAKE CITY, MICHIGAN

GENERAL FUND
ANALYSIS OF EXPENDITURES - BUDGET AND ACTUAL

YEAR ENDED MARCH 31, 2007
WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED MARCH 31, 2006

	<u>2007</u>		<u>2006</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
<u>PUBLIC WORKS</u>			
Street Lighting	\$ 19,000	\$ 17,028	\$ 14,132
Sanitation			
Personal Services	\$ 20,000	\$ 18,920	\$ 16,951
Health and Life Insurance	4,500	4,371	2,862
Contracted Services	52,000	51,545	50,217
Legal Advertisements	50	0	31
Supplies	750	559	2,015
Equipment Rental	10,500	10,499	10,433
Repairs and Maintenance	200	63	269
Insurance	650	530	451
Miscellaneous	50	0	0
	<u>\$ 88,700</u>	<u>\$ 86,487</u>	<u>\$ 83,229</u>
<u>COMMUNITY AND ECONOMIC DEVELOPMENT</u>			
Planning and Zoning			
Personal Services	\$ 9,000	\$ 8,205	\$ 6,235
Supplies	100	21	2,034
Legal Advertisements	100	159	20
Dues and Miscellaneous	250	209	152
	<u>\$ 9,450</u>	<u>\$ 8,594</u>	<u>\$ 8,441</u>
<u>CULTURE AND RECREATION</u>			
Parks and Recreation			
Personal Services	\$ 27,000	\$ 26,482	\$ 29,807
Health and Life Insurance	9,200	8,709	11,727
Legal Advertisements	500	315	0
Retirement	2,500	2,500	2,500
Uniforms	400	585	242
Insurance	1,210	1,008	787
Supplies	1,750	1,683	905
Contracted Services	8,000	7,747	12,631
Utilities	8,750	7,815	7,974
Telephone	650	621	511

CITY OF LAKE CITY, MICHIGAN

GENERAL FUND

ANALYSIS OF EXPENDITURES - BUDGET AND ACTUAL

YEAR ENDED MARCH 31, 2007

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED MARCH 31, 2006

	<u>2007</u>		<u>2006</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
Repairs and Maintenance	18,750	18,067	8,051
Equipment Rentals	13,500	12,663	15,555
Capital Outlay	44,000	42,929	73,850
Dues and Miscellaneous	900	785	694
	<u>\$ 137,110</u>	<u>\$ 131,909</u>	<u>\$ 165,234</u>
 Total Expenditures	 \$ 429,950	 \$ 404,110	 \$ 424,751
 <u>OTHER FINANCING USES</u>			
Transfers Out			
Cemetery Fund	<u>8,000</u>	<u>8,000</u>	<u>7,000</u>
 TOTAL EXPENDITURES AND OTHER FINANCING USES	 <u><u>\$ 437,950</u></u>	 <u><u>\$ 412,110</u></u>	 <u><u>\$ 431,751</u></u>

CITY OF LAKE CITY, MICHIGAN

MAJOR STREET FUND
COMPARATIVE BALANCE SHEET

MARCH 31,

	2007	2006
<u>ASSETS</u>		
Cash	\$ 80,654	\$ 60,095
Due from Other Funds	0	12
Due from Other Governments	11,333	13,024
Prepaid Expenditures	35	33
TOTAL ASSETS	<u>\$ 92,022</u>	<u>\$ 73,164</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts Payable	\$ 74	\$ 678
Accrued Expenditures	342	218
Due to Other Funds	1,084	0
Due to Other Governments	657	657
Total Liabilities	<u>\$ 2,157</u>	<u>\$ 1,553</u>
<u>FUND BALANCE</u>		
Reserved for Prepaid Expenditures	\$ 35	\$ 33
Unreserved		
Designated for Street Improvements	89,830	71,578
Total Fund Balance	<u>\$ 89,865</u>	<u>\$ 71,611</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 92,022</u>	<u>\$ 73,164</u>

CITY OF LAKE CITY, MICHIGAN

MAJOR STREET FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED MARCH 31, 2007

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED MARCH 31, 2006

	<u>2007</u>		<u>2006</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
State Grants	\$ 44,000	\$ 55,786	\$ 58,826
Charges for Services	1,700	0	0
Interest	100	170	112
Total Revenues	<u>\$ 45,800</u>	<u>\$ 55,956</u>	<u>\$ 58,938</u>
<u>EXPENDITURES</u>			
Public Works			
Personal Services	\$ 9,000	\$ 8,294	\$ 8,627
Health and Life Insurance	4,000	3,290	3,637
Contracted Services	840	794	3,251
Audit	925	925	925
Repairs and Maintenance	6,000	5,653	10,648
Equipment Rental	19,500	17,572	18,929
Insurance	600	524	473
Miscellaneous	100	103	145
Supplies	750	547	1,979
Total Expenditures	<u>\$ 41,715</u>	<u>\$ 37,702</u>	<u>\$ 48,614</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ 4,085	\$ 18,254	\$ 10,324
<u>FUND BALANCE</u> - Beginning of Year	<u>71,611</u>	<u>71,611</u>	<u>61,287</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 75,696</u>	<u>\$ 89,865</u>	<u>\$ 71,611</u>

CITY OF LAKE CITY, MICHIGAN

LOCAL STREET FUND
COMPARATIVE BALANCE SHEET

MARCH 31,

	2007	2006
<u>ASSETS</u>		
Cash	\$ 57,110	\$ 39,596
Taxes Receivable	4,299	4,169
Due from Other Funds	5,241	5,600
Due from Other Governments	4,734	4,913
Prepaid Expenditures	39	38
TOTAL ASSETS	<u>\$ 71,423</u>	<u>\$ 54,316</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts Payable	\$ 636	\$ 1,952
Accrued Expenditures	127	218
Due to Other Funds	14	0
Deferred Revenue	143	104
Total Liabilities	<u>\$ 920</u>	<u>\$ 2,274</u>
<u>FUND BALANCE</u>		
Reserved for Prepaid Expenditures	\$ 39	\$ 38
Unreserved		
Designated for Street Improvements	70,464	52,004
Total Fund Balance	<u>\$ 70,503</u>	<u>\$ 52,042</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 71,423</u>	<u>\$ 54,316</u>

CITY OF LAKE CITY, MICHIGAN

LOCAL STREET FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED MARCH 31, 2007

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED MARCH 31, 2006

	<u>2007</u>		<u>2006</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
Taxes	\$ 31,056	\$ 31,646	\$ 30,085
State Grants	28,000	26,463	27,081
Interest	100	174	131
Other Revenue	0	1,869	0
Total Revenues	<u>\$ 59,156</u>	<u>\$ 60,152</u>	<u>\$ 57,297</u>
<u>EXPENDITURES</u>			
Public Works			
Personal Services	\$ 10,000	\$ 8,892	\$ 6,415
Health and Life Insurance	2,800	2,312	2,768
Audit	525	525	525
Contracted Services	750	6,878	9,379
Repairs and Maintenance	7,000	926	5,387
Equipment Rental	25,000	20,640	16,982
Insurance	700	647	583
Supplies	1,000	824	1,500
Miscellaneous	50	47	39
Total Expenditures	<u>\$ 47,825</u>	<u>\$ 41,691</u>	<u>\$ 43,578</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ 11,331	\$ 18,461	\$ 13,719
<u>FUND BALANCE</u> - Beginning of Year	<u>52,042</u>	<u>52,042</u>	<u>38,323</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 63,373</u>	<u>\$ 70,503</u>	<u>\$ 52,042</u>

MAJOR PROPRIETARY FUNDS

Water and Sewer Funds

The Water and Sewer Funds account for the provision of water and sewer services to the residents of the City and certain adjacent areas. All activities related to such services are accounted for in the water and sewer system funds which are generally self-supporting. Primary financing is provided through user-charges.

CITY OF LAKE CITY, MICHIGAN

WATER FUND
COMPARATIVE BALANCE SHEET

MARCH 31,

<u>ASSETS</u>	2007	2006
<u>CURRENT ASSETS</u>		
Cash	\$ 93,623	\$ 70,487
Accounts Receivable	9,271	6,325
Inventory	28,617	28,079
Due from Other Funds	0	36
Prepaid Expense	1,084	1,038
Total Current Assets	\$ 132,595	\$ 105,965
<u>NONCURRENT ASSETS</u>		
<u>RESTRICTED ASSETS</u>		
Cash	\$ 19,439	\$ 77,910
Special Assessments Receivable	9,890	9,941
Total Restricted Assets	\$ 29,329	\$ 87,851
<u>CAPITAL ASSETS</u>		
Water Wells, Distribution System and Equipment	\$ 1,129,802	\$ 1,129,802
Less Accumulated Depreciation	(540,345)	(515,468)
Net Capital Assets	\$ 589,457	\$ 614,334
Total Noncurrent Assets	\$ 618,786	\$ 702,185
TOTAL ASSETS	\$ 751,381	\$ 808,150
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	\$ 4,425	\$ 40,355
Accrued Expenses	1,097	1,781
Due to Other Funds	54	0
Total Current Liabilities	\$ 5,576	\$ 42,136
<u>NET ASSETS</u>		
Invested in Capital Assets	\$ 589,457	\$ 614,334
Restricted for Improvements	29,329	87,851
Unrestricted	127,019	63,829
Total Net Assets	\$ 745,805	\$ 766,014
TOTAL LIABILITIES AND NET ASSETS	\$ 751,381	\$ 808,150

CITY OF LAKE CITY, MICHIGAN

WATER FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

YEAR ENDED MARCH 31,

	<u>2007</u>	<u>2006</u>
<u>OPERATING REVENUES</u>		
Charges for Services	\$ 121,538	\$ 101,683
Hydrant Rental	8,400	8,400
Water Tower Rental	8,277	8,561
Total Operating Revenues	\$ 138,215	\$ 118,644
<u>OPERATING EXPENSES</u>		
Personal Services	\$ 33,060	\$ 37,276
Retirement	2,000	2,000
Health Insurance	14,324	9,376
Uniforms	116	135
Supplies	849	7,306
Legal Advertisements	382	379
Contracted Services	1,938	7,790
Audit and Accounting Fees	1,000	1,000
Utilities	21,459	25,162
Repairs and Maintenance	53,510	7,969
Laboratory Analysis	8,419	7,389
Equipment Rental	8,035	13,077
Insurance	8,518	8,186
Continuing Education	60	280
Dues	255	302
Depreciation	24,877	23,209
Total Operating Expenses	\$ 178,802	\$ 150,836
Operating Income (Loss)	\$ (40,587)	\$ (32,192)

CITY OF LAKE CITY, MICHIGAN

WATER FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

YEAR ENDED MARCH 31,

	<u>2007</u>	<u>2006</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>		
Wellhead Protection Grant	\$ 18,250	\$ 0
Interest on Investments	1,996	1,248
Interest on Special Assessments	132	330
	<hr/>	<hr/>
Total Nonoperating Revenues (Expenses)	\$ 20,378	\$ 1,578
	<hr/>	<hr/>
Change in Net Assets	\$ (20,209)	\$ (30,614)
	<hr/>	<hr/>
<u>TOTAL NET ASSETS</u> - Beginning of Year	766,014	796,628
	<hr/>	<hr/>
<u>TOTAL NET ASSETS</u> - End of Year	<u>\$ 745,805</u>	<u>\$ 766,014</u>

CITY OF LAKE CITY, MICHIGAN
WATER FUND
COMPARATIVE STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31,

	<u>2007</u>	<u>2006</u>
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>		
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 135,305	\$ 118,608
Cash Payments to Suppliers for Goods and Services	(157,325)	(50,093)
Cash Payments to Employees for Services	(33,744)	(36,513)
	<u>\$ (55,764)</u>	<u>\$ 32,002</u>
Cash Flows from Capital and Related Financing Activities:		
Collections of Special Assessments	\$ 51	\$ 613
Wellhead Protection Grant	18,250	0
Acquisitions and Construction of Capital Assets	0	(36,732)
	<u>\$ 18,301</u>	<u>\$ (36,119)</u>
Cash Flows from Investing Activities:		
Interest on Investments	\$ 1,996	\$ 1,248
Interest on Special Assessments	132	330
	<u>\$ 2,128</u>	<u>\$ 1,578</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (35,335)	\$ (2,539)
<u>CASH AND CASH EQUIVALENTS - Beginning of Year</u>	<u>148,397</u>	<u>150,936</u>
<u>CASH AND CASH EQUIVALENTS - End of Year</u>	<u>\$ 113,062</u>	<u>\$ 148,397</u>

CITY OF LAKE CITY, MICHIGAN
WATER FUND
COMPARATIVE STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31,

	<u>2007</u>	<u>2006</u>
<u>RECONCILIATION OF OPERATING INCOME</u>		
<u>TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>		
Operating Income (Loss)	\$ (40,587)	\$ (32,192)
Adjustments to reconcile Operating Income		
To Net Cash Provided by Operating Activities		
Depreciation	\$ 24,877	\$ 23,209
(Increase) Decrease in Current Assets		
Accounts Receivable	(2,946)	617
Due from Other Funds	36	(36)
Inventory	(538)	4,553
Prepaid Expense	(46)	173
Increase (Decrease) in Current Liabilities		
Accounts Payable	(35,930)	34,915
Other Accrued Expenses	(684)	763
Due to Other Funds	54	0
Total Adjustments	<u>\$ (15,177)</u>	<u>\$ 64,194</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u>\$ (55,764)</u></u>	<u><u>\$ 32,002</u></u>

CITY OF LAKE CITY, MICHIGAN

SEWER FUND
COMPARATIVE BALANCE SHEET

MARCH 31,

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash	\$ 174,599	\$ 140,770
Accounts Receivable	12,746	12,296
Due from Other Funds	3,697	2,455
Prepaid Expense	1,428	1,368
Total Current Assets	<u>\$ 192,470</u>	<u>\$ 156,889</u>
<u>NONCURRENT ASSETS</u>		
<u>RESTRICTED ASSETS</u>		
Cash	\$ 141,748	\$ 126,438
Special Assessments Receivable	55,510	65,967
Total Restricted Assets	<u>\$ 197,258</u>	<u>\$ 192,405</u>
<u>CAPITAL ASSETS</u>		
Equipment and Vehicles	\$ 222,837	\$ 222,837
Collection and Treatment System	1,761,113	1,761,113
Less Accumulated Depreciation	<u>(853,036)</u>	<u>(805,851)</u>
Net Capital Assets	<u>\$ 1,130,914</u>	<u>\$ 1,178,099</u>
Total Noncurrent Assets	<u>\$ 1,328,172</u>	<u>\$ 1,370,504</u>
TOTAL ASSETS	<u><u>\$ 1,520,642</u></u>	<u><u>\$ 1,527,393</u></u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	\$ 3,868	\$ 4,270
Accrued Expenses	1,930	2,323
Total Liabilities	<u>\$ 5,798</u>	<u>\$ 6,593</u>
<u>NET ASSETS</u>		
Invested in Capital Assets	\$ 1,130,914	\$ 1,178,099
Restricted for Improvements	197,258	192,405
Unrestricted	<u>186,672</u>	<u>150,296</u>
Total Net Assets	<u>\$ 1,514,844</u>	<u>\$ 1,520,800</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,520,642</u></u>	<u><u>\$ 1,527,393</u></u>

CITY OF LAKE CITY, MICHIGAN

SEWER FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

YEAR ENDED MARCH 31,

	<u>2007</u>	<u>2006</u>
<u>OPERATING REVENUES</u>		
Charges for Services and Connection Fees	\$ 196,320	\$ 192,067
<u>OPERATING EXPENSES</u>		
Personal Services	\$ 51,185	\$ 52,952
Retirement	3,000	3,000
Health Insurance	19,643	12,449
Uniforms	282	1,953
Supplies	399	921
Contracted Services	1,347	3,196
Audit and Accounting Fees	1,000	1,000
Utilities	22,322	20,325
Repairs and Maintenance	40,335	15,486
Laboratory Analysis	5,812	5,288
Equipment Rental	530	1,039
Insurance	11,088	10,302
Dues	3,905	4,046
Miscellaneous	2,649	2,141
Depreciation	47,186	46,905
Total Operating Expenses	<u>\$ 210,683</u>	<u>\$ 181,003</u>
Operating Income (Loss)	<u>\$ (14,363)</u>	<u>\$ 11,064</u>

CITY OF LAKE CITY, MICHIGAN

SEWER FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

YEAR ENDED MARCH 31,

	<u>2007</u>	<u>2006</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>		
Interest on Investments	\$ 2,050	\$ 1,302
Interest on Special Assessments	5,926	10,592
Other Revenue	431	224
	<hr/>	<hr/>
Total Nonoperating Revenues (Expenses)	\$ 8,407	\$ 12,118
	<hr/>	<hr/>
Income (Loss) Before Capital Contributions	\$ (5,956)	\$ 23,182
<u>CAPITAL CONTRIBUTIONS</u>		
Contributions from Local Units - Sewer Debt	0	13,315
	<hr/>	<hr/>
Change in Net Assets	\$ (5,956)	\$ 36,497
<u>TOTAL NET ASSETS - Beginning of Year</u>	<u>1,520,800</u>	<u>1,484,303</u>
<u>TOTAL NET ASSETS - End of Year</u>	<u>\$ 1,514,844</u>	<u>\$ 1,520,800</u>

CITY OF LAKE CITY, MICHIGAN
SEWER FUND
COMPARATIVE STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31,

	<u>2007</u>	<u>2006</u>
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>		
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 194,568	\$ 212,028
Cash Payments to Suppliers for Goods and Services	(112,714)	(83,043)
Cash Payments to Employees for Services	(51,578)	(52,290)
	<u>\$ 30,276</u>	<u>\$ 76,695</u>
Cash Flows from Capital and Related Financing Activities:		
Collections of Special Assessments	\$ 10,456	\$ 24,677
Acquisitions and Construction of Capital Assets	0	(30,474)
Contributions from Local Units	0	13,315
Other Revenue Received	431	224
	<u>\$ 10,887</u>	<u>\$ 7,742</u>
Cash Flows from Investing Activities:		
Interest on Investments	\$ 2,050	\$ 1,302
Interest on Special Assessments	5,926	10,592
	<u>\$ 7,976</u>	<u>\$ 11,894</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 49,139	\$ 96,331
<u>CASH AND CASH EQUIVALENTS - Beginning of Year</u>	<u>267,208</u>	<u>170,877</u>
<u>CASH AND CASH EQUIVALENTS - End of Year</u>	<u>\$ 316,347</u>	<u>\$ 267,208</u>

CITY OF LAKE CITY, MICHIGAN
SEWER FUND
COMPARATIVE STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31,

	<u>2007</u>	<u>2006</u>
<u>RECONCILIATION OF OPERATING INCOME</u>		
<u>TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>		
Operating Income (Loss)	\$ (14,363)	\$ 11,064
Adjustments to reconcile Operating Income		
To Net Cash Provided by Operating Activities		
Depreciation	\$ 47,186	\$ 46,905
(Increase) Decrease in Current Assets		
Accounts Receivable	(450)	(2,371)
Due from Other Funds	(1,242)	22,332
Prepaid Expense	(60)	(75)
Increase (Decrease) in Current Liabilities		
Accounts Payable	(402)	(1,822)
Other Accrued Expenses	(393)	662
Total Adjustments	\$ 44,639	\$ 65,631
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 30,276</u>	<u>\$ 76,695</u>

NONMAJOR SPECIAL REVENUE FUNDS

FIRE FUND

The Fire Fund accounts for revenue set aside for the purpose of providing fire protection services.

LAW FUND

The Law Fund accounts for revenue set aside for law enforcement.

CEMETERY FUND

The Cemetery Fund accounts for revenue set aside for the purpose of providing cemetery services for City residents.

CITY OF LAKE CITY, MICHIGAN

NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET

MARCH 31, 2007

	<u>ASSETS</u>	<u>FIRE</u>	<u>LAW</u>	<u>CEMETERY</u>	<u>TOTALS</u>
Cash		\$ 41,030	\$ 37,007	\$ 24,615	\$ 102,652
Taxes Receivable		3,583	1,433	2,150	7,166
Due from Other Funds		4,374	1,389	2,058	7,821
Prepaid Expenditures		5,581	17	250	5,848
TOTAL ASSETS		<u>\$ 54,568</u>	<u>\$ 39,846</u>	<u>\$ 29,073</u>	<u>\$ 123,487</u>
	<u>LIABILITIES AND FUND BALANCE</u>				
	<u>LIABILITIES</u>				
Accounts Payable		\$ 0	\$ 55	\$ 86	\$ 141
Accrued Expenditures		0	0	246	246
Deferred Revenue		119	48	72	239
Total Liabilities		<u>\$ 119</u>	<u>\$ 103</u>	<u>\$ 404</u>	<u>\$ 626</u>
	<u>FUND BALANCE</u>				
Reserved for Prepaid Expenditures		\$ 5,581	\$ 17	\$ 250	\$ 5,848
Unreserved		48,868	39,726	28,419	117,013
Total Fund Balance		<u>\$ 54,449</u>	<u>\$ 39,743</u>	<u>\$ 28,669</u>	<u>\$ 122,861</u>
TOTAL LIABILITIES AND FUND BALANCE		<u>\$ 54,568</u>	<u>\$ 39,846</u>	<u>\$ 29,073</u>	<u>\$ 123,487</u>

CITY OF LAKE CITY, MICHIGAN

NONMAJOR SPECIAL REVENUE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED MARCH 31, 2007

	FIRE	LAW	CEMETERY	TOTALS
<u>REVENUES</u>				
Taxes	\$ 25,755	\$ 10,673	\$ 16,008	\$ 52,436
State Grants	0	2,310	0	2,310
Charges for Services	0	0	11,325	11,325
Interest	130	117	29	276
Total Revenues	<u>\$ 25,885</u>	<u>\$ 13,100</u>	<u>\$ 27,362</u>	<u>\$ 66,347</u>
<u>EXPENDITURES</u>				
General Government	\$ 0	\$ 0	\$ 31,050	\$ 31,050
Public Safety	21,030	19,241	0	40,271
Total Expenditures	<u>\$ 21,030</u>	<u>\$ 19,241</u>	<u>\$ 31,050</u>	<u>\$ 71,321</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ 4,855	\$ (6,141)	\$ (3,688)	\$ (4,974)
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfer In				
General Fund	<u>0</u>	<u>0</u>	<u>8,000</u>	<u>8,000</u>
Net Change in Fund Balance	4,855	(6,141)	4,312	3,026
<u>FUND BALANCE - Beginning of Year</u>	<u>49,594</u>	<u>45,884</u>	<u>24,357</u>	<u>119,835</u>
<u>FUND BALANCE - End of Year</u>	<u>\$ 54,449</u>	<u>\$ 39,743</u>	<u>\$ 28,669</u>	<u>\$ 122,861</u>

CITY OF LAKE CITY, MICHIGAN

FIRE FUND
COMPARATIVE BALANCE SHEET

MARCH 31,

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Cash	\$ 41,030	\$ 42,469
Taxes Receivable	3,583	3,474
Due from Other Funds	4,374	3,738
Prepaid Expenditures	5,581	0
	<u>5,581</u>	<u>0</u>
TOTAL ASSETS	<u>\$ 54,568</u>	<u>\$ 49,681</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Deferred Revenue	\$ 119	\$ 87
<u>FUND BALANCE</u>		
Reserved for Prepaid Expenditures	\$ 5,581	\$ 0
Unreserved		
Designated for Fire Protection	48,868	49,594
	<u>48,868</u>	<u>49,594</u>
Total Fund Balance	<u>\$ 54,449</u>	<u>\$ 49,594</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 54,568</u>	<u>\$ 49,681</u>

CITY OF LAKE CITY, MICHIGAN

FIRE FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED MARCH 31, 2007

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED MARCH 31, 2006

	<u>2007</u>		<u>2006</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
Taxes	\$ 19,934	\$ 25,755	\$ 24,478
Interest	75	130	108
Total Revenues	<u>\$ 20,009</u>	<u>\$ 25,885</u>	<u>\$ 24,586</u>
<u>EXPENDITURES</u>			
Public Safety			
Contracted Services	\$ 0	\$ 0	\$ 750
Hydrant Rental	8,400	8,400	8,400
Audit	450	450	450
Miscellaneous	2,400	1,016	2
Aid to Other Governments	11,250	11,164	10,489
Total Expenditures	<u>\$ 22,500</u>	<u>\$ 21,030</u>	<u>\$ 20,091</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ (2,491)	\$ 4,855	\$ 4,495
<u>FUND BALANCE</u> - Beginning of Year	<u>49,594</u>	<u>49,594</u>	<u>45,099</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 47,103</u>	<u>\$ 54,449</u>	<u>\$ 49,594</u>

CITY OF LAKE CITY, MICHIGAN

LAW FUND
COMPARATIVE BALANCE SHEET

MARCH 31,

	2007	2006
<u>ASSETS</u>		
Cash	\$ 37,007	\$ 43,215
Taxes Receivable	1,433	1,390
Due from Other Funds	1,389	1,418
Prepaid Expenditures	17	17
TOTAL ASSETS	<u>\$ 39,846</u>	<u>\$ 46,040</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts Payable	\$ 55	\$ 121
Deferred Revenue	48	35
Total Liabilities	<u>\$ 103</u>	<u>\$ 156</u>
<u>FUND BALANCE</u>		
Reserved for Prepaid Expenditures	\$ 17	\$ 17
Unreserved		
Designated for Law Enforcement	39,726	45,867
Total Fund Balance	<u>\$ 39,743</u>	<u>\$ 45,884</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 39,846</u>	<u>\$ 46,040</u>

CITY OF LAKE CITY, MICHIGAN

LAW FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED MARCH 31, 2007

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED MARCH 31, 2006

	<u>2007</u>		<u>2006</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
Taxes	\$ 10,492	\$ 10,673	\$ 10,141
State Grants	2,310	2,310	2,323
Interest	100	117	125
Total Revenues	\$ 12,902	\$ 13,100	\$ 12,589
<u>EXPENDITURES</u>			
Public Safety			
Personal Services	\$ 1,100	\$ 1,010	\$ 860
Health and Life Insurance	500	422	684
Contracted Services	18,000	16,862	14,282
Supplies	500	124	136
Audit	500	500	500
Equipment Rentals	300	201	117
Insurance	160	115	86
Miscellaneous	50	7	2
Total Expenditures	\$ 21,110	\$ 19,241	\$ 16,667
Excess (Deficiency) of Revenues Over Expenditures	\$ (8,208)	\$ (6,141)	\$ (4,078)
<u>FUND BALANCE</u> - Beginning of Year	45,884	45,884	49,962
<u>FUND BALANCE</u> - End of Year	\$ 37,676	\$ 39,743	\$ 45,884

CITY OF LAKE CITY, MICHIGAN

CEMETERY FUND
COMPARATIVE BALANCE SHEET

MARCH 31,

	2007	2006
<u>ASSETS</u>		
Cash	\$ 24,615	\$ 20,810
Taxes Receivable	2,150	2,085
Due from Other Funds	2,058	2,144
Prepaid Expenditures	250	240
TOTAL ASSETS	<u>\$ 29,073</u>	<u>\$ 25,279</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts Payable	\$ 86	\$ 576
Accrued Expenditures	246	294
Deferred Revenue	72	52
Total Liabilities	<u>\$ 404</u>	<u>\$ 922</u>
<u>FUND BALANCE</u>		
Reserved for Prepaid Expenditures	\$ 250	\$ 240
Unreserved	28,419	24,117
Total Fund Balance	<u>\$ 28,669</u>	<u>\$ 24,357</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 29,073</u>	<u>\$ 25,279</u>

CITY OF LAKE CITY, MICHIGAN

CEMETERY FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED MARCH 31, 2007

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED MARCH 31, 2006

	<u>2007</u>		<u>2006</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
Taxes	\$ 15,900	\$ 16,008	\$ 15,216
Charges for Services	10,525	11,325	19,355
Interest	10	29	28
Total Revenues	\$ 26,435	\$ 27,362	\$ 34,599
<u>EXPENDITURES</u>			
General Government			
Personal Services	\$ 15,000	\$ 14,974	\$ 17,206
Health and Life Insurance	10,100	10,017	10,484
Uniforms	200	0	100
Supplies	250	234	170
Contracted Services	1,250	1,114	1,191
Audit	450	450	450
Utilities	250	245	338
Gas and Oil	700	562	1,132
Repairs and Maintenance	600	479	2,501
Equipment Rentals	1,200	1,116	4,102
General Insurance	2,150	1,849	1,645
Miscellaneous	0	10	56
Total Expenditures	\$ 32,150	\$ 31,050	\$ 39,375
Excess (Deficiency) of Revenues Over Expenditures	\$ (5,715)	\$ (3,688)	\$ (4,776)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfer In			
General Fund	8,000	8,000	7,000
Net Change in Fund Balance	\$ 2,285	\$ 4,312	\$ 2,224
<u>FUND BALANCE</u> - Beginning of Year	24,357	24,357	22,133
<u>FUND BALANCE</u> - End of Year	\$ 26,642	\$ 28,669	\$ 24,357

INTERNAL SERVICE FUND

EQUIPMENT FUND

The Equipment Fund accounts for the rental of equipment to other departments and related costs.

CITY OF LAKE CITY, MICHIGAN

EQUIPMENT FUND
COMPARATIVE BALANCE SHEET

MARCH 31,

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash	\$ 186,118	\$ 199,733
Due from Other Funds	0	6
Prepaid Insurance	1,253	1,195
Total Current Assets	<u>\$ 187,371</u>	<u>\$ 200,934</u>
<u>NONCURRENT ASSETS</u>		
<u>CAPITAL ASSETS</u>		
Equipment	\$ 429,507	\$ 373,234
Less Accumulated Depreciation	(290,782)	(260,866)
Net Capital Assets	<u>\$ 138,725</u>	<u>\$ 112,368</u>
TOTAL ASSETS	<u><u>\$ 326,096</u></u>	<u><u>\$ 313,302</u></u>
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	\$ 4,332	\$ 1,353
Due to General Fund	8	0
Accrued Expenses	567	316
TOTAL LIABILITIES	<u>\$ 4,907</u>	<u>\$ 1,669</u>
<u>NET ASSETS</u>		
Invested in Capital Assets	\$ 138,725	\$ 112,368
Unrestricted	182,464	228,189
TOTAL NET ASSETS	<u>\$ 321,189</u>	<u>\$ 311,633</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 326,096</u></u>	<u><u>\$ 313,302</u></u>

CITY OF LAKE CITY, MICHIGAN

EQUIPMENT FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

YEAR ENDED MARCH 31,

	<u>2007</u>	<u>2006</u>
<u>OPERATING REVENUES</u>		
Charges for Services		
Equipment Rental	\$ 74,741	\$ 82,786
Other Revenue	0	28
Total Operating Revenues	<u>\$ 74,741</u>	<u>\$ 82,814</u>
<u>OPERATING EXPENSES</u>		
Personal Services	\$ 6,197	\$ 4,602
Health and Life Insurance	1,798	1,508
Supplies	474	519
Gasoline and Oil	6,319	8,298
Audit	500	500
Repairs and Maintenance	12,758	8,954
Insurance	9,509	10,062
Miscellaneous	49	0
Depreciation	29,916	26,189
Total Operating Expenses	<u>\$ 67,520</u>	<u>\$ 60,632</u>
Operating Income (Loss)	<u>\$ 7,221</u>	<u>\$ 22,182</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>		
Gain on Sale of Assets	\$ 0	\$ 5,200
Interest Revenue	2,335	1,542
Total Nonoperating Revenues (Expenses)	<u>\$ 2,335</u>	<u>\$ 6,742</u>
Change in Net Assets	\$ 9,556	\$ 28,924
<u>TOTAL NET ASSETS</u> - Beginning of Year	<u>311,633</u>	<u>282,709</u>
<u>TOTAL NET ASSETS</u> - End of Year	<u><u>\$ 321,189</u></u>	<u><u>\$ 311,633</u></u>

CITY OF LAKE CITY, MICHIGAN

EQUIPMENT FUND
COMPARATIVE STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31,

	<u>2007</u>	<u>2006</u>
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>		
Cash Flows from Operating Activities:		
Cash Received from Interfund Services		
Provided and Used	\$ 74,747	\$ 82,780
Cash Payments to Suppliers for Goods and Services	(28,478)	(30,801)
Cash Payments to Employees for Services	(5,946)	(4,507)
Other Operating Revenue	0	28
	<hr/>	<hr/>
Net Cash Provided by Operating Activities	\$ 40,323	\$ 47,500
	<hr/>	<hr/>
Cash Flows from Capital and Related Financing Activities:		
Acquisition of Capital Assets	\$ (56,273)	\$ (36,893)
Proceeds from Sale of Capital Assets	0	5,200
	<hr/>	<hr/>
Net Cash Provided by Capital and Related Financing Activities	\$ (56,273)	\$ (31,693)
	<hr/>	<hr/>
Cash Flows from Investing Activities:		
Interest on Investments	\$ 2,335	\$ 1,542
	<hr/>	<hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (13,615)	\$ 17,349
	<hr/>	<hr/>
<u>CASH AND CASH EQUIVALENTS</u> - Beginning of Year	199,733	182,384
	<hr/>	<hr/>
<u>CASH AND CASH EQUIVALENTS</u> - End of Year	\$ 186,118	\$ 199,733
	<hr/>	<hr/>
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH</u> <u>PROVIDED BY OPERATING ACTIVITIES:</u>		
Operating Income (Loss)	\$ 7,221	\$ 22,182
	<hr/>	<hr/>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	\$ 29,916	\$ 26,189
(Increase) Decrease in Current Assets		
Due from Other Funds	6	(6)
Prepaid Insurance	(58)	34
Increase (Decrease) in Current Liabilities		
Accounts Payable	2,979	(994)
Accrued Expenses	251	95
Due to Other Funds	8	0
	<hr/>	<hr/>
Total Adjustments	\$ 33,102	\$ 25,318
	<hr/>	<hr/>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 40,323	\$ 47,500
	<hr/>	<hr/>

AGENCY FUNDS

TAX COLLECTION FUND

The Tax Collection Fund accounts for the collection and payment of property tax levies received by the City in an agency capacity.

PAYROLL FUND

The Payroll Fund accounts for payroll transactions of the City.

CITY OF LAKE CITY, MICHIGAN
AGENCY FUNDS

COMBINING BALANCE SHEET

MARCH 31, 2007
WITH COMPARATIVE TOTALS FOR MARCH 31, 2006

	TAX		TOTALS	
	COLLECTION	PAYROLL		
	FUND	FUND	2007	2006
<u>ASSETS</u>				
Cash	\$ 939	\$ 52	\$ 991	\$ 1,980
Due from Other Funds	0	0	0	599
Due from Other Governments	327	0	327	327
TOTAL ASSETS	<u>\$ 1,266</u>	<u>\$ 52</u>	<u>\$ 1,318</u>	<u>\$ 2,906</u>
<u>LIABILITIES</u>				
Withholding Deductions and				
Accrued Expenses	\$ 0	\$ 0	\$ 0	\$ 1,600
Due to Other Governments	1,266	0	1,266	1,260
Due to Other Funds	0	52	52	46
TOTAL LIABILITIES	<u>\$ 1,266</u>	<u>\$ 52</u>	<u>\$ 1,318</u>	<u>\$ 2,906</u>

CITY OF LAKE CITY, MICHIGAN
AGENCY FUNDS

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

YEAR ENDED MARCH 31, 2007

	BALANCE 4/1/2006	INCREASES	DECREASES	BALANCE 3/31/2007
<u>TOTAL - ALL AGENCY FUNDS</u>				
<u>ASSETS</u>				
Cash	\$ 1,980	\$ 1,257,027	\$ 1,258,016	\$ 991
Due from Other Governments	327	0	0	327
Due from Other Funds	599	241,981	242,580	0
<hr/>				
TOTAL ASSETS	\$ 2,906	\$ 1,499,008	\$ 1,500,596	\$ 1,318
<hr/>				
<u>LIABILITIES</u>				
Accounts Payable	\$ 0	\$ 6,171	\$ 6,171	\$ 0
Withholding Deductions	1,600	58,269	59,869	0
Due to Other Governments	1,260	716,792	716,786	1,266
Due to Other Funds	46	247,275	247,269	52
<hr/>				
TOTAL LIABILITIES	\$ 2,906	\$ 1,028,507	\$ 1,030,095	\$ 1,318
<hr/>				

CITY OF LAKE CITY, MICHIGAN

TAX COLLECTION FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

YEAR ENDED MARCH 31, 2007

	BALANCE			BALANCE
	4/1/2006	INCREASES	DECREASES	3/31/2007
<u>ASSETS</u>				
Cash	\$ 334	\$ 972,395	\$ 971,790	\$ 939
Due from Other Governments	327	0	0	327
Due from Other Funds	599	0	599	0
TOTAL ASSETS	\$ 1,260	\$ 972,395	\$ 972,389	\$ 1,266
<u>LIABILITIES</u>				
Accounts Payable	\$ 0	\$ 6,171	\$ 6,171	\$ 0
Due to Other Governments	1,260	716,792	716,786	1,266
Due to Other Funds	0	247,269	247,269	0
TOTAL LIABILITIES	\$ 1,260	\$ 970,232	\$ 970,226	\$ 1,266

CITY OF LAKE CITY, MICHIGAN

PAYROLL FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

YEAR ENDED MARCH 31, 2007

	BALANCE			BALANCE
	4/1/2006	INCREASES	DECREASES	3/31/2007
<u>ASSETS</u>				
Cash	\$ 1,646	\$ 284,632	\$ 286,226	\$ 52
Due from Other Funds	0	241,981	241,981	0
TOTAL ASSETS	\$ 1,646	\$ 526,613	\$ 528,207	\$ 52
<u>LIABILITIES</u>				
Withholding Deductions	\$ 1,600	\$ 58,269	\$ 59,869	\$ 0
Due to Other Funds	46	6	0	52
TOTAL LIABILITIES	\$ 1,646	\$ 58,275	\$ 59,869	\$ 52

COMPONENT UNITS

DOWNTOWN DEVELOPMENT AUTHORITY FUND

The Downtown Development Authority Fund is designed to assist in the economic growth of the central business district.

DOWNTOWN DEVELOPMENT AUTHORITY 2000 DEBT RETIREMENT FUND

The Downtown Development Authority 2000 Debt Retirement Fund accounts for the accumulation of resources to pay the 2000 DDA Bond principal and interest.

CITY OF LAKE CITY, MICHIGAN

COMPONENT UNITS
COMBINING BALANCE SHEET

MARCH 31, 2007
WITH COMPARATIVE TOTALS FOR MARCH 31, 2006

	DOWNTOWN DEVELOPMENT AUTHORITY FUND	DOWNTOWN DEVELOPMENT AUTHORITY DEBT RETIREMENT FUND	TOTALS	
			2007	2006
<u>ASSETS</u>				
<u>ASSETS</u>				
Cash	\$ 131,399	\$ 0	\$ 131,399	\$ 122,231
Taxes Receivable	16,277	0	16,277	8,159
Due from Other Funds	0	1,230	1,230	1,230
Due from Other Governments	14,223	0	14,223	6,064
TOTAL ASSETS	<u>\$ 161,899</u>	<u>\$ 1,230</u>	<u>\$ 163,129</u>	<u>\$ 137,684</u>
<u>LIABILITIES AND FUND BALANCE</u>				
<u>LIABILITIES</u>				
Due to Other Funds	\$ 1,230	\$ 0	\$ 1,230	\$ 1,230
Due to Other Governments	327	0	327	327
Total Liabilities	<u>\$ 1,557</u>	<u>\$ 0</u>	<u>\$ 1,557</u>	<u>\$ 1,557</u>
<u>FUND BALANCE</u>				
Reserved	\$ 0	\$ 1,230	\$ 1,230	\$ 1,230
Unreserved	160,342	0	160,342	134,897
Total Fund Balance	<u>\$ 160,342</u>	<u>\$ 1,230</u>	<u>\$ 161,572</u>	<u>\$ 136,127</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 161,899</u>	<u>\$ 1,230</u>	<u>\$ 163,129</u>	<u>\$ 137,684</u>

CITY OF LAKE CITY, MICHIGAN

COMPONENT UNITS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED MARCH 31, 2007

WITH COMPARATIVE TOTALS FOR YEAR ENDED MARCH 31, 2006

	DOWNTOWN DEVELOPMENT AUTHORITY FUND	DOWNTOWN DEVELOPMENT AUTHORITY DEBT RETIREMENT FUND	TOTALS	
			2007	2006
<u>REVENUES</u>				
Taxes	\$ 59,603	\$ 0	\$ 59,603	\$ 54,148
Interest	692	0	692	583
Total Revenues	\$ 60,295	\$ 0	\$ 60,295	\$ 54,731
<u>EXPENDITURES</u>				
Economic Development	\$ 0	\$ 0	\$ 0	\$ 1,120
Debt Service				
Principal	0	20,000	20,000	20,000
Interest	0	14,850	14,850	15,915
Total Expenditures	\$ 0	\$ 34,850	\$ 34,850	\$ 37,035
Excess (Deficiency) of Revenues Over Expenditures	\$ 60,295	\$ (34,850)	\$ 25,445	\$ 17,696
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers In	\$ 0	\$ 34,850	\$ 34,850	\$ 35,915
Transfers Out	(34,850)	0	(34,850)	(35,915)
Total Other Financing Sources (Uses)	\$ (34,850)	\$ 34,850	\$ 0	\$ 0
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Sources (Uses)	\$ 25,445	\$ 0	\$ 25,445	\$ 17,696
<u>FUND BALANCE</u> - Beginning of Year	134,897	1,230	136,127	118,431
<u>FUND BALANCE</u> - End of Year	\$ 160,342	\$ 1,230	\$ 161,572	\$ 136,127

CITY OF LAKE CITY, MICHIGAN

DOWNTOWN DEVELOPMENT AUTHORITY FUND
COMPARATIVE BALANCE SHEET

MARCH 31,

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Cash	\$ 131,399	\$ 122,231
Taxes Receivable	16,277	8,159
Due from Other Governments	14,223	6,064
TOTAL ASSETS	<u>\$ 161,899</u>	<u>\$ 136,454</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Due to Other Funds	\$ 1,230	\$ 1,230
Due to Other Governments	327	327
Total Liabilities	\$ 1,557	\$ 1,557
<u>FUND BALANCE</u>		
Unreserved	<u>160,342</u>	<u>134,897</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 161,899</u>	<u>\$ 136,454</u>

CITY OF LAKE CITY, MICHIGAN

DOWNTOWN DEVELOPMENT AUTHORITY FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED MARCH 31,

	2007	2006
<u>REVENUES</u>		
Taxes	\$ 59,603	\$ 54,148
Interest	692	583
Total Revenues	\$ 60,295	\$ 54,731
<u>EXPENDITURES</u>		
Economic Development		
Improvements/Repairs and Maintenance	0	1,120
Excess (Deficiency) of Revenues Over Expenditures	\$ 60,295	\$ 53,611
<u>OTHER FINANCING SOURCES (USES)</u>		
Transfers (Out)	(34,850)	(35,915)
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other (Uses)	\$ 25,445	\$ 17,696
<u>FUND BALANCE</u> - Beginning of Year	134,897	117,201
<u>FUND BALANCE</u> - End of Year	\$ 160,342	\$ 134,897

CITY OF LAKE CITY, MICHIGAN

DOWNTOWN DEVELOPMENT AUTHORITY 2000 DEBT RETIREMENT FUND
COMPARATIVE BALANCE SHEET

MARCH 31,

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Due from Other Funds	\$ 1,230	\$ 1,230
Due from Other Governments	0	0
TOTAL ASSETS	<u>\$ 1,230</u>	<u>\$ 1,230</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>	\$ 0	\$ 0
<u>FUND BALANCE</u>		
Reserved for Debt Service	<u>1,230</u>	<u>1,230</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,230</u>	<u>\$ 1,230</u>

CITY OF LAKE CITY, MICHIGAN

DOWNTOWN DEVELOPMENT AUTHORITY 2000 DEBT RETIREMENT FUND
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE

YEAR ENDED MARCH 31,

	<u>2007</u>	<u>2006</u>
<u>REVENUES</u>	<u>\$ 0</u>	<u>\$ 0</u>
<u>EXPENDITURES</u>		
Debt Retirement		
Principal	\$ 20,000	\$ 20,000
Interest on Bonded Debt	14,850	15,915
	<u>34,850</u>	<u>35,915</u>
Total Expenditures	<u>\$ 34,850</u>	<u>\$ 35,915</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ (34,850)	\$ (35,915)
<u>OTHER FINANCING SOURCES (USES)</u>		
Transfers In	<u>34,850</u>	<u>35,915</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures	\$ 0	\$ 0
<u>FUND BALANCE</u> - Beginning of Year	<u>1,230</u>	<u>1,230</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 1,230</u>	<u>\$ 1,230</u>

CITY OF LAKE CITY, MICHIGAN

DOWNTOWN DEVELOPMENT SERIES 2000 BONDS PAYABLE

MARCH 31, 2007

<u>DATE OF ISSUE</u>	May 1, 2000	
<u>AMOUNT OF ISSUE</u>		\$ 350,000
<u>AMOUNT REDEEMED</u>		
Prior Years	\$ 75,000	
Current Year	<u>20,000</u>	<u>95,000</u>
<u>BALANCE OUTSTANDING</u> - March 31, 2007		<u>\$ 255,000</u>

<u>DUE DATES</u>	<u>INTEREST RATES</u>	<u>REQUIREMENTS</u>		
		<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
May 1, 2007	5.40 %	\$ 20,000	\$ 7,158	\$ 27,158
November 1, 2007			6,618	6,618
May 1, 2008	5.45 %	25,000	6,618	31,618
November 1, 2008			5,936	5,936
May 1, 2009	5.50 %	25,000	5,936	30,936
November 1, 2009			5,249	5,249
May 1, 2010	5.55 %	25,000	5,249	30,249
November 1, 2010			4,555	4,555
May 1, 2011	5.60 %	30,000	4,555	34,555
November 1, 2011			3,715	3,715
May 1, 2012	5.65 %	30,000	3,715	33,715
November 1, 2012			2,868	2,868
May 1, 2013	5.70 %	30,000	2,868	32,868
November 1, 2013			2,013	2,013
May 1, 2014	5.75 %	35,000	2,013	37,013
November 1, 2014			1,006	1,006
May 1, 2015	5.75 %	35,000	1,006	36,006
		<u>\$ 255,000</u>	<u>\$ 71,078</u>	<u>\$ 326,078</u>

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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June 15, 2007

To the City Council
City of Lake City
Lake City, Michigan

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lake City, Michigan, as of and for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Lake City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the a governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We identified the following deficiencies in internal control that we consider to be significant deficiencies.

1) Lack of Segregation of Duties

The relatively small number of people involved in the accounting functions of the City and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Council must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

2) Utility Receivable Reconciliations

Balances from the utilities billing software are not being reconciled to the related accounts receivable control account balances in the Water and Sewer Funds. The account balances in these funds general ledgers should be reconciled to the aged accounts receivable report generated by the billing software on a monthly basis to ensure that all billing and collection transactions are being recorded properly. Care must be taken that the same cutoff date is used for depositing and recording receipts in the general ledgers as is used for posting transactions to the billing program.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the deficiencies described above are material weaknesses.

This communication is intended solely for the information and use of the Council and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.